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OCTOBER 1985

FREE ENTERPRISE:

The Key to Prosperity

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Something Better

"Do you want to go downtown tonight to see a movie?"

"No thanks. There's a better movie I want to watch on TV."

My friend made a choice. After weighing the pluses and minuses, he chose movie A over movie B. He went to see the movie he preferred.

This is the essence of the market economy. In a free market, entrepreneurs offer goods, services and jobs. We, in turn, choose what we consider to be the best offer. In the eyes of others, of course, we may be wrong. But it is *our* decision, and we bear the consequences.

When given a choice, people always select what they prefer. This is a truism. They go with the best anyone has to offer. That is, until something better comes along.

Something better came along for many immigrants when they entered the United States. Here were jobs, land, goods and services. Here was freedom. In America, workers were free to compete for jobs, and employers were free to compete for workers' services. Merchants were free to offer their wares, and consumers were free to take their pick. People were free to seek something better.

Entrepreneurs the world over continue to offer consumers more and better products. Consumers, when they are free to choose, select those products which best suit their needs. Workers continue to move to freer economies, in search of better jobs and a better life. In the last two years alone, the U. S. economy has created 7 million new jobs, while absorbing a steady stream of immigrants.

This, then, is the choice we face. Do we continue to let entrepreneurs here and abroad offer us goods and services, so that we may freely decide which products best suit our needs? Do we continue to serve as a haven for people seeking a better life? Or do we close our society, shackle our economy, and use the force of government to prevent people around the world from seeking something better?

—Brian Summers

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Perry Gresham

Liberty and the Entrepreneur

WHEN FIRMS are failing and people are out of work, there is clamor for government action to reduce foreign competition and to subsidize faltering industries. An unfortunate inclination to run to government obscures the real hope for solution to these problems. What is really needed is enough liberty for entrepreneurs to do their work.

Francis Amasa Walker, Economics Professor at Yale and later President of M.I.T., met the "iron law" theories of Malthus, Ricardo and Mill head on. He demonstrated with stunning clarity that new opportunities do not derive from dipping into some imagined "wage fund" or from exploiting the workers. Walker identified the entrepreneur as the significant factor in economic development—especially in times such as his or ours.

Dr. Gresham is President Emeritus and Distinguished Professor, Bethany College, Bethany, West Virginia.

David Birch and his M.I.T. colleagues startled America by their study of nearly six million firms reported in Dun and Bradstreet. They concluded that small companies, each with fewer than one hundred employees, created eighty-two per cent of the new jobs in the United States economy during the period 1969–76. These small companies are the realized insights, dreams and formulated plans of action on the part of entrepreneurs.

The Complex Motives of the Entrepreneur

The entrepreneur in America can be truly classified a rare bird. He differs from the conventionally defined businessman in many ways. The entrepreneur's motives are not merely to avoid loss, turn a modest profit if possible, defend the organization, maintain a position, and win approval for exemplary conduct. The

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entrepreneur is possessed above all with drive, insight and ingenuity.

Adam Smith assumed the economic motive to be "a drive to better one's own condition." Ludwig von Mises refined this viewpoint as "an attempt to substitute a more satisfactory state of affairs for a less satisfactory one." The entrepreneur, however, has more complex motives.

The will to power is a basic factor in human psychology, and many economic motives derive from this will—the entrepreneurial drive included. Possessions often bring power and position. George Gilder, however, reminds us that individual economic motives need not be altogether selfish. Henry Ford not only sought profit, but hoped to provide transportation at low cost for the people of America. John and George Hartford, who created the Great A&P Tea Company, sought to better their condition, but also to supply the American people with better food for less money. The old service club slogan, "He profits most who serves the best," is true.

Emulation, nevertheless, is a prime factor for each entrepreneurial venture. When other people are making substantial profits, the entrepreneur wishes to do the same thing.

Risk Factors

The speculative aspect of entrepreneurship has been emphasized by Ludwig von Mises in his great book, *Human Action.* Israel Kirzner, in his timely book *Competition and Entrepreneurship,* acknowledges the speculative character of business innovation, but points out that the wise entrepreneur is alert to the fact that "opportunity for profit *does* exist." He goes on to say, "All human action is speculative; my emphasis on the element of alertness and action has been intended to point out that, far from being numbed by the inescapable uncertainty of our world, men act *upon their judgments* of what opportunities have been left unexploited by others."

One of the neglected philosophical aspects of economics has been the acknowledgment and understanding of the principle which the philosopher, Charles Sanders Peirce, called *Tychism.* The very smallest particles of the universe exhibit a random performance which can be actuarily described for purposes of rough prediction, but cannot be assumed to exhibit the kind of absolute causation that made many of the laws of science and, to a lesser extent, the social sciences seem capable of flawless prediction. The economic determinism of Karl Marx must go the way of all absolute determinism. The word "Tychism" derives from Tyche, the goddess of chance. The Latin name for this fair mythological maiden is "Fortuna." She is, indeed, the goddess of the entrepreneur.

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Some people have native capacity to take risks. As Gilder points out in his *The Spirit of Enterprise,* "whether sorting potatoes or writing software, they are movers and shakers, doers and givers, brimming with visions of creation and opportunity. They are optimists who see in every patch of sand a potential garden, in every man a potential worker, in every problem a possible profit." These are people who take the plunge to create new enterprises, build new businesses, revitalize old ones. They struggle, flounder, work day and night, sometimes succeed and often fail; but they are resilient and they keep coming on.

The Compleat Entrepreneur

I shall not attempt to describe the compleat entrepreneur as Izaak Walton made glamorous "the compleat angler." I shall, however, outline a few characteristics of the numerous entrepreneurs who are building America out of the ruin of some of our traditional beleaguered and subsidized industries.

Kirzner correctly identifies alertness to new opportunity as the principal factor in entrepreneurship. The person who fails to see an opportunity is disqualified. A wise old African observed, "Anybody can see a seed in an apple; the wise person can see an apple in a seed."

Only optimists transform the economy. The optimism must be disciplined, and cannot give way to gloom. The turn of mind which settles for Murphy's Law is doomed. To build upon my earlier figure of speech, the pessimist is a person who can see a bellyache in an apple blossom!

Boundless energy is a great aid to an entepreneur. Very few people succeed in life without sizable reservoirs of energy. The pioneer who starts a new business may very well wind up working at it all hours of the night. Entrepreneurs make money the old-fashioned way: "they earn it!" Lack of fiscal discipline encouraged by government and somewhat by huge corporations is the enemy of business innovation and successful development. The young Turks who have learned their habits from bureaucracies, whether public or private, may argue the maxim, "You've got to spend money to make money." My experience is that most who urge this action are more adept at the spending than the making. The entrepreneur who starts in his basement then mortgages his house and works on a shoestring is much more likely to succeed than is the person who takes out a huge loan and attempts to live up to his presumed status as a businessman.

The entrepreneur, moreover, must be able to face failure and be resourceful enough to learn from it. Some of the most successful companies in America are the result of

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early entrepreneurial failures. The imaginative and creative business person learns by failure, as well as by success.

A talented entrepreneur must have a better-than-average sense of timing. When Shakespeare wrote "There is a tide in the affairs of men, which taken at its crest, leads on to fortune," he provided the maxim for the modern American entrepreneur. My friend Richard Cramer exemplifies the possible accomplishment of a genius entrepreneur who acts at the right time and in the right place. I quote a paragraph from his letter:

> I left IVAC Corporation in May 1972 and founded IMED Corporation in September of 1972. I brought with me from IVAC, etc. engineers and marketing people who had been with me all the way back to my start in 1962. IMED proceeded to continue to develop products in the IV control area and developed the first truly volumetric IV pump, which allowed, in turn, the development and use of a wide range of IV solutions, and the expanded use of IV therapy in patient care. IMED grew very rapidly and very profitably by concentrating on these nurse related instruments, that positively affected the stabilization and recovery of patients. In 1982, I sold IMED to Warner Lambert company for $465 million cash. This, incidentally, was the largest sale of a private industrial corporation in United States history.

The cybernetic revolution is of considerable benefit to the aspiring entrepreneur. The ease with which relatively inexpensive computers can aid in the prediction of outcomes is of great importance to the daring innovator. Ford and Carnegie had to do it the hard way.

The Social Economic Climate

Our present business climate has negative aspects for entrepreneuring. The inevitable competition may be fierce; business and union monopolies have erected formidable barriers to progress, but the brave and the daring succeed!

The greatest enemy of the entrepreneur is government intervention. The do-good motives which prompt politicians to pass laws and erect bureaucracies not only restrain the pioneer, but mobilize formidable obstacles in the form of unnecessary regulation and discriminatory taxation. The daring, innovating entrepreneur is well-equipped for the struggle, but the government holds a frightening advantage: it has a monopoly on violent force!

No one, however, can thwart the insight, initiative, imagination, drive and determination of a true entrepreneur. While economists are describing the impossibility of the project, and the government is regulating against the success of the enterprise, and the unions and associations are mobilized to thwart progress, the truly intrepid are winning fortunes and providing employment for unnumbered multitudes.

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Clarence B. Carson

FREE ENTERPRISE: The Key to Prosperity

FREE ENTERPRISE is widely acclaimed in the United States. Politicians, generally, declare in favor of it; editorialists frequently laud it; Chambers of Commerce have writing contests about it; even automobile stickers praise its virtues. Yet much of our enterprise is restrained, restricted, hampered, regulated, controlled, or prohibited. As an old saw has it, "What you do speaks so loud I can't hear what you are saying." By our practice, we say that we believe in free enterprise—*except* . . . Except for public utilities. Except for the railroads. Except for mail delivery. Except for medical services. Except for housing, financing, and real estate transactions. Except for large corporations. Except for education. Except for interest rates. Except for farmers. Except for small business. Except for industrial workers. In short, a case could be made that Americans believe in free enterprise except in whatever activities they happen to be considering.

It may be helpful, then, to consider free enterprise in terms of itself, minus all the partisan exceptions. The approach here will be to pose five questions: What is free enterprise? What are the objections to free enterprise? How may the objections be answered? What are the practical advantages of free enterprise? Is free enterprise necessary to freedom? The answers to these should provide some perspective on free enterprise.

Dr. Carson is an experienced observer and analyst of political and economic affairs. He is a specialist in American history with his Ph.D. degree from Vanderbilt University. He is the author of several books, and is currently at work on a five-volume text, *A Basic History of the United States.*

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What is Free Enterprise?

Free enterprise is a way of going about meeting our needs and wants by providing for ourselves or by freely entering into transactions with others. The opposite of free enterprise is hampered, restricted, controlled, or prohibited enterprise. The enterprise itself must be conducted in an orderly fashion within the framework of rules, but if the rules inhibit entry or hamper activity they become restrictions on enterprise. It is clear enough, for example, that traffic at an intersection must be regulated in its flow but that reasonable rules promote rather than inhibit the effective use of the street. On the other hand, if a city made a rule that taxicabs were to be limited to those presently in operation it would be equally clear that enterprise was being hampered. In a similar fashion, if a city adopted a rule forbidding any taxi to use the streets within its boundaries, that type of enterprise would be prohibited. Thus, government may be an adjunct or an obstacle to enterprise.

Free enterprise does not exist in a vacuum; it must be institutionally supported and protected. One of these institutions is *government.* Government is necessary to prohibit and punish the private violation of the rights of those who peacefully use their energies and resources in a productive way. Government is necessary also to punish fraud and deception, to settle disputes which may arise, and to regulate the use of public facilities such as highways. Another basic institution for free enterprise is *private property.* For enterprise to be free, those who engage in it must be free; that entails having property in themselves and what they produce. Enterprisers must have title to their goods in order either to consume them or trade with others. Real property in land and buildings is essential to have a place to produce and to market goods and services. Private property not only supplies opportunities for the individual to provide for himself but it also places inherent limits on his activity. He can only rightfully sell and convey to another what is his in the first place. Private property also sets bounds to enterprise by restricting the owner to the use of what is his own or to that which the rightful owner authorizes others to use.

A third ingredient of free enterprise is *free access to the market.* A market is any arena within which buyers and sellers meet to effect their transactions. Under free enterprise neither buyer nor seller is prevented from making transactions by government decree or private threats or use of force.

The motor of free enterprise, indeed, of all enterprise, is *individual initiative.* Individuals provide the energy for the making of goods and providing of services. They conceive,

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invent, design, engineer, produce, and market goods through their endeavor. The great spur to produce is the increase of one's goods or the profit he may make by selling them. Here again, the importance of private property and free access to the market may be seen. If men cannot keep as property what they produce, if they cannot market it, their incentive to produce is lessened or removed.

The great regulator of free enterprise is *competition.* Competition among sellers keeps prices down and tends to assure that the customer will be served. Competition among buyers provides a market in which those goods that are wanted can be sold at a profit. Prices are the result of this competition. Although any owner may offer his wares at a price acceptable to him, he can only sell when he has found a buyer willing to pay his price.

What Are the Objections to Free Enterprise?

There is no doing without human enterprise, for without it we would all be impoverished and our survival in doubt. The main question we have in regard to it is whether it shall be free or hampered. Reformist and revolutionary intellectuals have launched a massive assault over the past century against the market, private property, the profit motive, and other facets of free enterprise. The thrust of their efforts has been to discover fatal flaws in the system, which they usually describe as capitalist, and to propose that government either supervise or take over the operation of the economy. They can be classified in one of two broad categories: *meliorism* or *socialism.*

Meliorism is the view that what is wrong with free enterprise can be *corrected by government intervention.* It holds that government can control, restrict, limit, regulate, tax, and redistribute so as to better the lot of the people and avoid the worst difficulties which they believe are inherent in free enterprise. Meliorists are hardly enthusiastic about private property and individual enterprise, but they do not usually attack them head on.

Socialists do directly attack property, private enterprise, the profit system, and what they call capitalism. They propose to abolish them with governmental (or collective or public) ownership of the means of production of goods. Socialism divides roughly into two camps: *democratic socialism* and *communism.* Democratic socialists are distinguished by a gradual approach to socialism because they are tied to popular elections and must move as the electorate will. Communists are revolutionaries who move toward socialism swiftly and by drastic measures once they come to power. They are characterized by one-party rule,

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and by totalitarian control over the lives of the people.

While socialists and meliorists have a barrage of objections to free enterprise, the following points are central to their argument.

One of their arguments which has broad appeal is that *free enterprise produces cutthroat competition,* often described as dog eat dog, or rugged individualism. The charge is that some people compete so vigorously that they drive competitors out of business or buy them out. While this is made to sound as if it were a special variety of competition, it is really a plea for government intervention to limit and restrain competition.

Competition as War

A related objection to free enterprise is that *competition amounts to industrial warfare,* that it pits men against one another in the quest for material possessions. Those who advance this notion say that free enterprise depends upon and calls forth the baser human motives, that it is materialistic, that it makes selfishness into a virtue, and that it fosters competition rather than leading men to cooperate with one another. This conception of competition war has served over the years as the major propellant of government intervention by way of antitrust legislation, fair trade laws, and other regulatory measures.

An objection heard frequently is that *the consumer is taken advantage of and deceived* by advertising and a great variety of marginally different products and services. According to John Kenneth Galbraith in *The Affluent Society,* all kinds of frills are produced which people do not really need but are induced to buy by advertising. Ralph Nader has made a career out of protecting customers from themselves. The thrust of the consumer protection movement has been to try to replace the ancient rule of letting the buyer beware with government prescriptions about how goods may be sold.

Although those who raise objections to free enterprise are often ambiguous about the merits of free enterprise, one of their objections is that under this system there is *imperfect competition.* This is the charge that businesses do not compete with one another with sufficient vigor. Instead, they say, companies engaged in the same business conspire with one another to raise prices. Or, as a result of competition, one company drives all others out and proceeds to charge what the traffic will bear.

In the middle of the nineteenth century Karl Marx claimed that in industrial capitalist countries there was a trend toward monopoly where a single company would dominate a whole industry. Indeed, he held that large companies would grow larger

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until they had a whole industry under their sway. This argument crops up again and again in many different guises. The term "oligopoly" was devised to describe the situation when several giants control an industry. The thrust of these arguments in the United States has been to press for breaking up large concentrations of industry.

Some objectors to free enterprise hold that one of its least desirable traits is that it results in *unequal distribution* of goods and services. The most commonly repeated phrase is that the rich get richer and the poor get poorer. Many lack the bare necessities, while others have more than anyone could consume or use. Those who make these charges against free enterprise may not believe that goods should be exactly equally distributed, but they do argue that everyone should have enough, at the least, to meet their basic needs.

Probably, the most devastating charge against the free enterprise system is that it is responsible for the *business cycle.* Business activity does apparently go in cycles, with periods of prosperity alternating with recessions and depressions. The most common claim of reformists is that businessmen claim too large a share of the proceeds from their products, that there is a resulting decline in consumer demand, leading to recession or depression. The way to prevent this, they say, is for government to soak up the excess in taxes and distribute the wealth more or less directly to those who will spend it for consumer goods.

How May Objections to Free Enterprise be Answered?

Many of the objections to free enterprise arise either from misinformation about economics or the hope that somehow the requirements of economy can be evaded—itself a misconception regarding economics. One of the best ways to answer them, then, is to call up some of the basic principles of economics.

Economics has to do with scarcity. The character of economics is indicated by the conventional uses of words related to it. For example, one dictionary defines "economical" as "avoiding waste or extravagance; thrifty." It "implies prudent planning in the disposition of resources so as to avoid unnecessary waste. . . ." "Economy" refers to "thrifty management; frugality in the expenditure or consumption of money, materials, etc." Economics can be defined as the study of the most effective means for persons to maintain and increase the supply of goods and services at their disposal. Goods and services are understood to be scarce, and economics has to do with the frugal management of time, energy, resources, and materials so as to bring about the greatest in-

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crease in the supply of goods and services most desired.

There is every reason to believe that man is naturally inclined to use as little energy and materials to produce as many goods as he can from them. In short, he is predisposed to be economical. If this were not the case, it is easy to believe that he would long since have perished from the face of the earth. But this economic penchant gives rise to a problem rather than resolving all problems. There are two ways for an individual to augment the supply of goods and services at his disposal. (1) He can provide them for himself. (2) He can acquire them from others. Again, there are two ways for an individual to acquire them from others. (1) He can acquire them by exchange (in which we may well include free gifts). Or (2) he can take them from someone who possesses them.

It is this latter option that raises hob in determining what is economic. Strictly speaking, robbery could be quite economical for an individual. By stealing, an individual can greatly increase the supply of goods and services available to him with only a very little expenditure of energy and materials. A bank robber may, for example, spend half an hour using a twenty-dollar gun and enrich himself, say, to the extent of $20,000.

That might indeed be economical for an individual, but it is not so for society at large. Economics has to do with the increase of the supply of goods in general, not just the individual's gain. The bank robber augments his personal supply at the expense of those from whom he has stolen. Moreover, he may reduce the general supply further by the threat he poses to trade and the loss of incentive men have to produce when they are uncertain that they will be able to keep the rewards of their efforts. For these reasons, theft should not be considered economical.

Even so, the example of the bank robber is not frivolous. All redistribution schemes are proposals to use force to take from those who have and give to those who have not. If governments do such things, it is still theft, albeit *legal* theft. And its effect on the general supply would reasonably be the same as any other kind of theft.

The Problem of Scarcity

The economic question, then, is under what system is the supply of goods most apt to be replenished and increased? Is it one in which there is free access to the market, in which men receive the fruits of their labor for their own use or disposal, in which individual initiative is fully brought into play, and in which sellers and buyers are in competition? Or is it one in which access is controlled, in which property is con-

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trolled by government or held in common, in which individual initiative is discouraged, and in which competition is restrained? If we understand that the basic problem is scarcity, these are the questions about enterprise that need to be answered. The problem is really one of production, and with that in mind the objections to free enterprise discussed earlier can now be answered.

The attack on competition, because of the rigors involved in it and because there are losers, is really an attack on effective production. Such attacks gain widespread support quite often because of the desire to avoid the requirements of competition. Anyone can see the advantage of competition when it is among others. After all, competition brings down prices, increases the variety and quality of goods, and increases demand as well as supply. But competition is not nearly so attractive when we have to engage in it, especially once we have made our mark in production. It is not only necessary to get there by competition but also to stay there by changing and improving products, offering superior service, and the like. The argument against cutthroat competition is really not an argument against free enterprise but an argument against having to compete by those who have jobs, have arrived at a position, and want to retain it without further competition. When government restricts entry to any field, it is the "have- nots" who are most apt to be kept out. The main opportunity for men to improve their condition is by way of free access to the market. Free enterprise offers ready entry to all comers and provides what assurance there can be for continued replenishing of goods.

Cooperation and Competition

Competition is not a kind of warfare. To the extent that it pits men against one another it does so by stimulating them to excel. When each man is doing his best all may benefit: those who participate by producing and excelling, the rest of society by what is produced. There are no necessary victims in competition. Of course, not everyone can excel or even compete at the same level. But any man is a winner who discovers that way and level at which he can effectively produce and serve. Most people cannot run the four-minute mile. That does not mean that we put weights on the faster racers in order to enable the slower runners to keep up. People do well to compete at their own levels of ability.

Competition does not prevent or even downgrade cooperation, either. Under free enterprise people must and do cooperate in many ways to provide us with the amenities of life. Industrial production today requires cooperation of a very high degree.

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The assembly line is the epitome of organized cooperation. The making and selling of automobiles, for example, requires the cooperation of all sorts of entrepreneurs, financiers, service providers, manufacturers, assembly line workers, transportation workers, designers, engineers, and mechanics.

On a less grandiose scale, we usually take for granted that any one of a hundred items will be available when we want it. I may decide, for example, that I need a new box of pencils. I go to the nearest store which carries sundries and discover that the store not only has pencils but a considerable variety of them as well. How did this happen? Did the store know that I was about out of pencils and that they should stock some in case I should come by? Not at all, yet a lot of foresight had gone into providing them for my convenience. Not only had companies brought together in factories those who could make pencils but also the need had been predicted, the capital set aside for producing them, supplies ordered, raw material prepared, and the pencils produced and placed by wholesalers with my local store. True, businesses in direct competition with one another may not do a great deal of cooperating with one another, but that may be largely because of the antitrust laws.

The extensive nature of competition is not generally well understood, and certainly not by most who write about imperfect competition. Most critics talk of competition as if it involved only direct competition among the suppliers of a particular kind of product. That kind of competition is only the tip of the iceberg of competition. For example, if General Motors were the only maker of automobiles in the United States, there would still be competition. The Chevrolet division would still be competing with Pontiac, Pontiac with Buick, Buick with Oldsmobile, these with Cadillac, and all of them with foreign imports.

Varieties of Competition

But competition is much broader and more varied than the above example would suggest. New cars are in competition with used ones. Automobiles, as a means of transportation, are in competition with busses, airlines, trains, motorcycles, trucks, bicycles, horses, and walking. Further, human wants are extensive, and the means for satisfying them are numerous and diverse. Instead of buying a car, or a second one, a given consumer may choose to add a room on his house, buy a boat, equip his family room with an amusement center, put his money in savings, or what not—all because he judged the car he might have bought too expensive. That kind of choice crops up in whatever direction we look.

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The number of foods which will sustain life, either singly or in combination with others, could hardly be counted. There are many fibers, natural and artificial, from which to make clothes, all sorts of building materials, a considerable number of fuels, to give a few examples. If the price of any one of these is raised significantly, or the quality declines, alternative means are likely to be found to gratify the want. If oranges become more expensive, apples may be substituted. Competition may not be as broad as the range of commodities on the market, but we come nearer to the truth when we view it that way than when we attempt to confine it to the makers of a single commodity.

Access to the Market

Imperfect competition, rightly understood, is a condition which exists when access to the market is hampered by legal restrictions or the use or threat of force. Otherwise, the extent of competition may be presumed to be adequate in the market, else new companies could be expected to enter the field. Whether competition is adequate or not cannot be determined by counting the number of companies engaged in making a commodity, by comparing the shares of the market which companies have, by calculating their costs and comparing them with retail prices, or any other such empirical device. The effectiveness of competition can only be measured to the extent that consumer satisfaction with the goods offered him in the market can be measured. When there is free access to the market, anyone who believes that there is some unmet want is free to enter the market and supply it. It happens all the time.

The critics are right when they say that under free enterprise goods are not equally distributed among the populace. Where there is private property, not everyone has the same amount of property. If such equality could exist, it would depend upon distributing everything equally and then stopping all transactions or change at that point. It would have to mean, also, the stopping of all births and deaths, for as soon as an imbalance between births and deaths occurred, a new inequality would either exist or an entire redistribution have to take place. But before such a new distribution could be completed the situation would no doubt have changed again and the effort to establish equality have failed.

This is by way of saying that equality in the distribution of goods cannot be. In no extensive society has there ever been equality of possessions; everywhere and always there has been disparity. The present writer does not know of a single family, which is surely the smallest

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social unit, in which each has exactly the same amount of possessions as every other, nor can he readily visualize how it could happen. Give two small children each a toy. One will have his torn up within the hour, while the other may keep his in good repair for months or years. It is so for adults as well; some manage well, work hard, take care of what they have received, others hardly at all. The basic question for an economy and society is not one of the disparity of wealth but of the justice of the arrangement under which it is acquired and maintained.

Market Success

What is a just distribution of goods and services? Given the differences in talent, tenacity, prudence, and willingness to work, it is surely not justice to distribute goods on the basis of equality, or even need. Under the free enterprise system men are understood to have got what they deserved when they get as property what they have produced and get in exchange for it what the highest bidder in the market is willing to pay. Does that mean that the case of the have-nots is hopeless under free enterprise? Not at all, for free enterprise offers them the best opportunity there is for improving their condition. When there are no obstacles in the way of entering any endeavor, men can and do change from have-nots to haves. There are many historical examples of men who have started with nothing and even attained great wealth. There are many more examples of those who have started with little and attained a competence.

There is much evidence to show that it is government activity, not free enterprise, which is responsible for the so-called business cycle. The cyclical change from prosperity to depression–recession to prosperity can be precisely corollated with increases and decreases in the supply of money. Dramatic increases in the money supply result in expansive business activity and tend to create a boom atmosphere. When the supply of money is decreased or stabilized, activity slows, and recessions follow. If there is a severe deflation, such as the one that followed the stock market crash in 1929, a deep depression can be the result. In precise terms, the cycles result from credit expansions and contractions. The villain of the piece is government manipulation of the money supply by way of the Federal Reserve system. The cure lies not in government intervention to hamper enterprise, but in a sound money that cannot be manipulated.

What Are the Practical Advantages of Free Enterprise?

It is not necessary to rely on theory alone to determine the superiority of free enterprise over other methods

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in providing for people's needs. There is historical evidence that when enterprise is freed from the restrictive hand of government and when property is rigorously protected, production increases along with general economic well-being. It needs to be understood, however, that much of economic history is a record of government interventions and restraints and that there are always some. Consequently, restriction is usually a matter of degree, not of absolutes. Nonetheless, there have been periods in the life of nations when enterprise has been freed from many of the restraints, and these provide favorable evidence for free enterprise.

England in the 19th century is a striking example of what can happen when enterprise is freed. In the early 1700s there were still numerous restrictions and special privileges hampering enterprise in that land. Beginning in 1689, however, the British made almost continuous progress in the direction of freer enterprise. By the 1820s, enterprise was substantially free in Great Britain, though the movement for free trade is usually thought of as culminating with the repeal of the Corn Laws in 1846. It is worth noting, too, that this freeing of enterprise was accompanied by the general establishment of widespread liberty, the limiting of the monarch, the toleration in religion, and protections of speech and of the press. These things go hand in hand.

The economic results were not long in coming. It has been estimated that England's industrial output increased tenfold between 1820 and 1913. Coal production was approximately 10 million tons in 1800, 44 million tons in 1850, and 154 million tons in 1880. Iron production was about 17,000 tons in 1740. By 1840 it had reached 1,390,000 tons, and a few years later had nearly tripled from that. Population increase did not quite keep up with industrial production, but there was unprecedented population growth as well. By the end of the 19th century, Englishmen were generally better off materially than ever before in history.

When Enterprise is Freed

To show Britain's place of leadership in the world, however, it is necessary to compare British economic achievement with that of other leading countries. Great Britain's percentage of manufacturing production in the world was 31.8 in 1870. By comparison, that of the United States was 23.3, that of Germany 13.2, and that of France 10.3 among the leading countries. In 1860, Britain had 23 per cent of the world trade, compared with 11 per cent for France and 9 per cent for the United States. In 1880, Britain had more than 6½ million tons of shipping, compared to less than 1½ million for

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the United States, the nearest competitor.

The 19th century was in many ways a kind of Golden Age. There was a quickening of activity in many nations, and England was surely the center from which so many improvements radiated outward to the rest of the world. The symbol of England's greatness was the Royal Navy, but the wonders were much more the achievements of the merchant marine. The ships that plied the seas from their home base in the tight little isle carried not only the abounding goods of a productive nation but also statesmen, ideas, and men confident in the superiority of their institutions eager to teach others in the arts of peace. The difference between England and many other lands was the stability of her institutions and the freedom of her enterprise.

In many ways, the emergence of the United States in the early 20th century as the leading manufacturing and agricultural producer was even more reasonable than the 19th-century achievement of Britain. After all, Britain had had several centuries of fairly steady advance on the world stage before the 19th century. What became the United States, by contrast, had been a colony until the late 18th century and had only emerged as a nation to be respected by European nations in the course of the 19th century. Yet in less than a century of independence, the United States was thrusting toward leadership among the producing peoples in the world. The country had been criss-crossed with railroads; the wilderness had been tamed, and the great Mississippi basin had become one of the most productive areas in the world. The political institutions of the United States had been designed from the outset to restrain and limit government. The energies of men were largely released in peaceful pursuits, and the people achieved wonders of building, invention, and development of manufacturing, transportation, and farming.

The Destruction of Enterprise

Examples of the repressive effect of government on enterprise are even more plentiful, but it will be possible here to give only one example. Appropriately, the example chosen will be Britain, since the focus has been upon that land in the freeing of enterprise. In the early years of the 20th century, the British government began to clamp down on enterprise, in what one historian has called *The Strange Death of Liberal England.* The impact of this on the British was being felt as a general decline by the 1930s, but the assault on enterprise did not reach its peak until after World War II.

In 1945, a Labour Party came to power in England committed to enacting the socialist programs it had

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long been advancing. The party did so with great haste, and in short order the Labourites completed the wreck of what remained of a once vigorous and healthy economy. The economy had suffered greatly from the interventions of the interwar years. It was hampered even more drastically by wartime restrictions. But the measures of the Labour government came close to banishing private economy from the land.

The wreckage was wrought by nationalization, controls, regulations, high taxes, and compulsory provision of services. There was a concerted effort to plan for and control virtually all economic activity in the land. The initiative for action was taken from the people and vested in a bureaucracy. Where industries were taken over, they were placed under the authority of boards which were in no position to act responsibly.

Equal Distinction and Having Less

English socialists had long been committed to as near equal distribution of goods and services as they could. Therefore, the Labour government undertook redistribution with a right good will. They levied steeply graduated income taxes, taxed "luxury" goods at high rates, controlled prices of food, clothing, and shelter, and rationed many items that were in particularly short supply. They provided free medical services, gave pensions, and otherwise aided those with little or no earned incomes. They distributed and they distributed.

The more they distributed, the less they had to distribute. Not only did such shortages as they had known during war continue, but others cropped up as well. One writer says, "By 1948, rations had fallen well below the wartime average. In one week, the average man's allowance was thirteen ounces of meat, one and a half ounces of cheese, six ounces of butter and margarine, one ounce of cooking fat, eight ounces of sugar, two pints of milk, and one egg." Even bread, which had *not* been rationed during the war, was rationed beginning in 1946. The government had first attempted to fool the English people into buying less bread by reducing the amount in a loaf. When that did not work, they turned to rationing. Housing, clothing, food, fuel—everything, it seemed—was in short supply.

By the summer of 1947, the British government was making no secret of its problem. The country was inundated with government posters, proclaiming "We Work or Want," posters whose threat was all bark and no bite. The fact is that when production is separated from distribution to any considerable extent the incentives to produce are reduced. When this is accompanied by numerous restrictions and loss of pri-

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vate control over property, as it was in England—restrictions which hamper people in their productive efforts—goods and services will be in ever shorter supply.

Since that time, Britain has off and on, but slowly, reduced the extent to which it restricts so as to hamper industry. Democratic socialists in many lands have lost some of their enthusiasm for nationalizing property and have favored government control with largely private ownership, as has been the case in Sweden. The United States in recent years has removed or reduced some of its regulations, though the central features of the Welfare State remain. Communists remain unmoved by all evidence, continue to thrust for government ownership of all productive property, and cause untold suffering with their drastic measures against private enterprise wherever they come to power. The most recent dramatic instance occurred in Ethiopia, with its hunger and starvation.

But whatever rulers have or have not learned from their determined efforts to establish roadblocks to enterprise, one thing appears universally to have alluded them. It is this: They still have not grasped that men must be in control of their own affairs if their enterprising spirit is to be unleashed in constructive efforts. For this, they must have the full measure of freedom, not that portion which politicians prate about as "human rights," thus ignoring or shunting aside the rights to property.

Is Free Enterprise Essential to Freedom?

Freedom is a seamless cloth, its parts inseparable from one another. Free enterprise is a part of and necessary to freedom within a society. It not only provides bread better than any other system but it also buttresses and rounds out the structure of political, social, intellectual, and religious freedom of a people.

Freedom is indivisible. Some of those who profess to value freedom but not free enterprise have tried to maintain that this is not the case. They distinguish between property rights and human rights, and hold that human rights are superior to property rights. Property rights are, however, human rights, rights of humans to the fruits of their labor. Arguments about which rights are superior are on the same order of those as to whether the heart is superior to the liver or whether the lungs are superior to the kidneys, for the fact is that human life and activity depend on all of these. Just so, freedom depends on the right to property just as it does to rights of free speech.

The reason for this needs to be explored. There is no human activity that does not involve the use of property. We cannot sleep, wake, eat, walk, drive, fly, swim, boat, work, go to church, print a paper, view a

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movie, make a speech, procreate, or engage in conversation without using property in some one or more of its dimensions. If a church cannot be owned by its communicants, their freedom to worship is under the control of someone else. If a press cannot be privately owned, freedom of the press is an illusion. If government controls all property, freedom of speech is something belonging to government, not to individuals.

The Breadth of Freedom

Free enterprise—which embraces private property—does not mean simply the right to engage in material production and distribution. It means the right to engage in every kind of productive activity: not only the manufacture of widgets but also forming a fraternal organization, starting a charitable organization, publishing a newspaper, organizing a church, and founding a college. Not all undertakings involve profit making, but all do involve the use of property and the making of transactions.

The thrust of government intervention in the economy is toward government control of all life and the destruction of the independence of the citizenry. Not every government intervention will in fact result in the totalizing of intervention, of course. Government may intervene here and not there, may extend its power for a time and withdraw, may even reverse its direction. But the tendency of men in power is to grasp for more. The tendency of those who gain some control over enterprise is to extend it into more and more areas.

Many Western socialists do not accept the totalitarian tendency of their doctrines. They cling to the belief that freedom can be retained in areas that they consider valuable while it is yielded up in the economic realm. They have nowhere, to my knowledge, submitted their theory to the test. Their experiments with socialism have been limited. They have nationalized *some* industries, expropriated *some* property, taken over the providing of *some* services, created bureaucracies to control *some* undertakings, empowered labor unions, and drawn up various sorts of restrictions. They have usually allowed considerable enterprise within the interstices of their systems. Such systems are oppressive, do hamper enterprise, do not function very well, but they are not totalitarian—not yet, anyway. They are not full-fledged socialism, either.

The same cannot be said for those countries in which there have been all-out efforts to abolish private property, to control every aspect of the economy, to bring all employment under state control, in a word to institute socialism in its most virulent form, Communism. In these countries, freedom is crushed. Such a country is ruled by terror, the ter-

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ror administered by secret police, by the shot in the back of the neck, by slave labor camps, by the arbitrariness of all government action, which is the ultimate terror. Terror is as essential to thoroughgoing socialism as sunlight is to photosynthesis. It is essential because man naturally has to look after himself and seeks means to do so, turns whatever he has into private property, and exerts his imagination and enterprise to provide for himself and his own. Man forever labors to carve out areas of freedom for himself. By so doing, he subverts socialist control. The only means for holding him back is terror and arbitrary government control.

Those who favor free enterprise are working to maintain or establish human freedom. They are on the side of the human spirit wherever efforts are being made to crush it. Those who stand for free enterprise have a noble cause, for it is the cause of freedom and of free men.

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E. Barry Asmus
Donald B. Billings

Human Nature and Human Action

"Why should it be," asked Walter Lippmann, a famous observer of the American scene, "that in a time when men are making the prodigious claim that they can plan and direct society, they are so profoundly impressed with the unmanageability of human affairs?" Especially in the twentieth century, we have seen more elaborate attempts through government to manage and control the private actions of individuals, yet, as Lippmann observed, ". . . this more elaborate organization can be operated only if there is more intelligence, more insight, more discipline, more disinterestedness, than exists in any ordinary company of men. Unfortunately this is the sickness of an overgoverned society, and at this point the people must seek relief through greater freedom if they are not to suffer greater disasters." Even the casual observer senses that government actions to solve problems are not working, and that as government attempts to do more, the less successful it becomes.

Human Action

Much of the reason for this can be understood by looking at how, we as individuals, organize ourselves in society. The rise, decline, and restoration of the market economy is in large part about the relative advantages and disadvantages of two overarching principles of social organization. Following the work of the German sociologist Franz Oppenheimer, Albert Jay Nock distinguishes between the "political

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means" and the "economic means" as social organizers or delivery systems. Which of these institutions works better when organizing social and economic behavior and which most closely conforms to the basic nature of man?

The political means necessarily requires the use of the coercive apparatus of government. It forces individuals to take actions which are contrary and in opposition to their own desires and goals. After all, the essential characteristic of government is its claim to a monopoly right on the use of force in society. As individuals, you and I would be arrested if we attempted to do those things which governments do as a matter of course.

The Economic Means versus The Political Means

The "economic" or market means refers to social arrangements in which only voluntary transactions between persons are permitted. In a market economy involuntary or forced exchanges would be criminal acts legitimately subject to appropriate penalties and government action. The fundamental distinction is between mine and thine. Individuals would pursue their own goals through the voluntary exchange of justly acquired rights in property.

The market means is consistent with both human nature and the purposeful action of individuals. In contrast, the political means operates at cross-purposes to human nature and individual choice. Minimum wage laws, rent controls, usury laws, price controls, tariffs, subsidized rents, interest rate ceilings, agricultural price supports, Federal loan guarantees, passenger rail service subsidies, and fixed public utility rates are just a few of the ways that government tries to alter human behavior. In every case it limits the number of exchanges that would have normally taken place and necessarily involves government force to ensure compliance. Constraining the purposeful behavior of individuals reflected in the laws of supply and demand, government tries to supersede the market in the name of the "public good."

But, the use of government force to restrict private actions presents important difficulties. Before government can create a miracle for one group, for example farm price subsidies for agriculture or rent subsidies for current renters, the money must first be taken away from someone else. Taxes are the anti-miracle imposed on people who would rather spend their money in a different way. This raises a fundamental question regarding the morality of allowing person A to meet with person B to determine how the money of person C will be used to help person D. The issue is a matter of justice in the acquisition of things (i.e., property) and

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therefore an important topic of discussion.

There is also the question of economic efficiency. Does government intervention in fact produce the intended consequences? Do minimum wage laws really help the poor? Have price supports in agriculture helped the farmer in the long run? Did price controls on energy solve the "energy crisis" or create it? Although many of government's actions are sincere and well intended, they have for the most part been disastrous in their unintended consequences. Government inherently demands that individuals act contrary to their personal objectives. This creates a situation analogous to the problem of forcing water to run uphill; although it can be done, it is very costly in terms of economic efficiency. But more importantly, the process involves a continual and growing abridgment of liberty.

In contrast, the market means encourages the spontaneous and mutually beneficial exchange of property which is in perfect harmony with the purposeful actions of free and sovereign human beings. As Adam Smith pointed out more than two hundred years ago in his *Wealth of Nations,* if the organizing principles of society agree with and are complementary to human nature, then ". . . the game of human society will go on easily and harmoniously, and is very likely to be happy and successful. If they are opposite or different, the game will go on miserably and the society must be at all times in the highest degree of disorder."

Crossroads is an important and comprehensive presentation of the rise, decline, and restoration of freedom and the market economy. The authors do an outstanding job of introducing readers to the history and nature of the American free market experiment. Copies can be ordered from the American Studies Institute, 3420 East Shea, Suite 266A, Phoenix, Arizona 85028: Paper $14.25, Cloth $26.75. Please add $1.50 for shipping and handling.

The mystery, posed by Walter Lippmann in *The Good Society,* regarding the simultaneous increase in the growth and power of government and our receding confidence in government's ability to deal with society's ills, disorder, decay, and malaise should be no surprise. Chaotically, we have come to rely on coercive institutions of social organization that operate at cross purposes to the essential nature of purposeful human beings. Every individual has his or her very own principle of motion. There is no mystery at all; pushing square pegs into round holes simply does not produce socially beneficial results.

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Kenneth McDonald

Routing the Fabians

I can still hear Sidney Webb explaining to me that the future belonged to the great administrative nations, where the officials govern and the police keep order.

—Élie Halévy

FOUNDED in England in 1884, the Fabian Society's aim was to spread the ideas of socialism gradually by democratic means. For almost a century it succeeded. In Great Britain and North America, under liberal and conservative governments alike, the state's influence spread. As recently as the late 1970s, every member of (British) Prime Minister James Callaghan's cabinet was a Fabian.

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Nevertheless it was increasingly plain to majorities of British and North American voters that attempts in the Fabian mode "to achieve through state action the coordinated control of the economic forces of society" had built up a governmental apparatus that was choking their economies. The election of Margaret Thatcher, Ronald Reagan and, later, Brian Mulroney signaled a rejection of Fabianism.

What has not been signaled is the nature of the "ism" that will replace it. It is not enough to hail the blessings of individual enterprise, or freer trade, or even individual freedom. All three stand to be enhanced as the state assumes a less active role in the economy. Desirable though that enhancement may be, it lacks the appeal that wins elections. Nor can we

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afford the luxury of the Fabians' gradualism in reverse. The accelerating burden of debt-servicing charges alone demands action in years, not generations.

The political task is to establish a principle, to form policies that adhere to it, and to explain the combination to the people.

Suppose that in North America the principle were to be that the best government is that which governs least, i.e., the antithesis of Fabian socialism. Policy would then be directed toward dismantling the governmental apparatus. Government corporations would be offered for sale. Any unsold after a stated interval would be dissolved. Services provided solely by federal governments would be contracted out to private suppliers whose terms of contract would stipulate criteria of service and performance. Federal governments would withdraw from revenue-sharing programs of a service nature (education, health and hospital care), leaving to states and provinces the options of making up the difference by direct taxation or contracting the services out.

Individual Choice

The effect would be to transfer significant amounts of spending power, and decisions about spending, from governments back to the individuals who contribute to their revenue.

Two consequences would follow. First, as federal spending fell, budgets would move into balance while providing for steady retirement of the public debt. Second, as states and provinces assumed full responsibility for matters now subject to revenue sharing, the cost of discharging that responsibility would be met by direct taxation supplemented by borrowing on their sole credit.

In short, the governmental apparatus, which now absorbs about half of national incomes and is adding more to debt every day, would return to solvency. State and provincial governments, whose seduction into shared cost programs has also forced them to share the debt that the programs have incurred, would regain control of their affairs.

Fabians and other critics would denounce the foregoing as a return to laissez faire and the law of the jungle. In fact, however, except for a period in 19th century England, François Quesnay's *laisser passer et laisser faire* (free passage and freedom of action) has not been tried.

One of many myths about *laisser faire* is that it caused the Great Depression. As Murray Rothbard wrote: "Hoover's role as founder of a revolutionary program of government planning to combat depression has been unjustly neglected by historians. Franklin D. Roosevelt, in large part, merely elaborated the policies laid down by his predecessor. To scoff at Hoover's tragic fail-

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ure to cure the depression as a typical example of laissez faire is drastically to misread the historical record. The Hoover rout must be set down as failure of government planning and not of the free market."[1]

By contrast, the period from the end of the Napoleonic War to 1890 saw England's governmental expenditure fall from 29 per cent of the national product to nine per cent. As H.S. Ferns described it: "This period of government expenditure declining in proportion to the total product of the community was one of economic success measured by almost any indicator one cares to choose: population growth, production per capita, intake of food per capita, house building, technological innovation, saving and investment, improvements in literacy, average length of life, etc."[2]

The irony is that laissez faire capitalism, which would engage everyone's self-interest to everyone's benefit, is hobbled by self-interest in league with the state. Powerful groups use elected governments as their agents to restrain trade in their favor. Industry associations, commercial and financial interests, labor unions, even the associations of consumers who have most to gain from laissez faire—all demand special treatment. The results are seen in oligopolies, cartels, import quotas, tariffs, restrictive labor laws and affirmative action programs. In Canada, goods often pass more readily to and from the United States than they do between provinces.

The truth is that all of us are demanding more from governments than they can provide at the cost we are prepared to pay. We won't pay more taxes—the growth of the underground economy bears witness to that—yet we expect governments to supply the services below cost. It is the rising cost of subsidizing the services, and politicians' reluctance to reduce the subsidies, that has put governments into debt.

Invest in the Private Sector

Nevertheless, appeals to self-interest may constitute the best hope for change.

It is a fact that the growing proportion of federal budgets consumed by debt charges reduces the proportion that is available to fund government services. As the debt rises, the taxpayers get smaller and smaller returns on their investment in the government that taxes support. If the government raises taxes to meet its rising costs, the taxpayers will keep less of their income. Everything points to the taxpayers getting less value for their money.

It is also a fact, borne out by tax-

[1]Murray N. Rothbard, *America's Great Depression* (Princeton, N.J.: Van Nostrand, 1963), p. 168.

[2]H.S. Ferns, *The Disease of Government* (London: Maurice Temple Smith Ltd., 1978), p. 15.

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payers' daily experience, that private suppliers give better service than governments.

Take those two facts together and it is plainly in the taxpayers' interest to invest less in the government and more in the private sector.

Getting politicians to subscribe openly to the proposition would call for a self-denying ordinance whereby they would resist the temptation to spend other people's money and start helping them to save some of it instead.

This might be accomplished by looking upon taxes as an investment in government services rather than a levy to meet government's expenses. Switching from the slow, cumbersome and costly supplier to the efficient and competitive one would be simply an act of good business.

It remains to consider how powerful groups might be resisted in their claims for special treatment. The remedy is to be found in appeals to the principle of equality before the law. "We're sorry, we sympathize with your proposal, but we must treat everyone alike. Government as it has been allowed to expand is a drag on the economy. You and everyone else will benefit through its withdrawal from active participation."

Thus two principles are involved: the best government governs least; and all are equal before the law. Having established them, the political leadership would need a rallying cry that would convey the message to the people.

Quesnay's free passage and freedom of action is ready made. There is an exuberant ring to it, a slogan to blow fresh air across the barriers to freedom.

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- Should American Business Give Up Smoking? — Gary North
- Living in Two Chinas — Dean Russell
- Letters to the Editor
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DECEMBER

- On the Bishops and the Market — Charles A. Baird
- Getting There — John K. Williams
- John Witherspoon: "Animated Son of Liberty" — Robert A. Peterson

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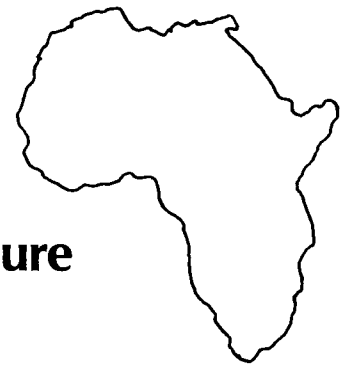
David Osterfeld

African Famine:
The Harvest of Socialist Agriculture



THE popular explanation of the current famine in Africa is the drought. But is this convincing? The North American Great Plains has major droughts about every twenty years, the most severe being the 1934–36 Dust Bowl. A major drought was recorded in California in 1977 and the 1975–76 drought in England was labeled "unprecedented" in its severity. Yet none of these resulted in famine. In fact, the 1977 California harvest was a record high. And food production in England increased by 15 percent between 1975 and 1980.

Why is it that droughts occur in all parts of the world but, with a few exceptions, famines are confined to Africa?

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The United Nations (UN) has listed 24 African countries as threatened by famine. These countries have one crucially important thing in common. They have all pursued policies which amount to nothing short of an assault on agriculture. The policies include the following.

Marketing Boards

The stated purpose of these Boards, which are found in most of the 24 countries including Ethiopia, is to insulate the farmer from price fluctuations. In fact, the Boards are typically used to raise government revenue. The farmer is forced to sell his produce to the Board which, because it is a government monopoly, need pay him only a fraction of its actual market value. The typical farmer in Tanzania receives about 10 percent of the value of his produce. In Kenya

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it is 15 percent and in Ghana 20 percent. Adding insult to injury, the farmer must then pay taxes on the income he does receive.

Outlawing Middlemen

The Boards could not operate as revenue agents if farmers were free to sell their produce elsewhere. Thus, the private sale of food has been outlawed or severely restricted in many countries. In Ethiopia and Tanzania, for example, those caught violating the prohibition are beaten or killed.

Protectionism

In order to stimulate local industry and to appease a small but politically powerful urban elite, private foreign investment has been discouraged and foreign-owned companies have been nationalized. Tariffs, subsidies and licensing restrictions have been enacted. These policies have allowed local manufacturers to sell their goods at well above free-market levels. This means that the African farmer must confront artificially inflated prices with an artificially deflated income.

State Farms

State farms are notoriously inefficient. While other socialist countries such as China have been dismantling them, African countries have been busy creating them. Ghana established large state farms in the 1960s. Its per capita food output fell 19 percent during the 1970s. Tanzania began its Ujama Program in 1970, resettling some 13 of its 18 million people onto collective villages. Its per capita food output fell 15 percent in ten years. A food exporter in 1970, it imported over $16 million worth of food in 1980. Mozambique became independent in 1975 and promptly created state collectives. Within 5 years per capita food output fell 12 percent. In Ethiopia state farms comprise 4 percent of the land, receive 90 percent of the state's agricultural investment, but 80 percent of them operate at a loss. Yet the ten-year plan calls for a doubling of the state farm sector.

Land Reform

Several countries, including Mozambique, Zaire and Tanzania, have implemented land reform, but Ethiopia's is the best known. Contrary to the way it is depicted by the media, much of Ethiopia is extremely fertile. It would be the breadbasket of Africa, agronomists said, were its development not retarded by feudalism. In 1975 the new Marxist government nationalized all land. Feudalism ended; "Ethiopian Socialism" began. Instead of development, farm output, low to begin with, declined. Why? The principle of land distribution was to allocate to each family enough land to feed itself but no more. The use of hired

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labor was prohibited, as was the private sale of farm produce and machinery. The primary purpose of the reform said the UN, which applauded it as "progressive" and "forward-looking," was to prevent the emergence of "commercial agriculture" by making farm plots too small for machinery to be economically viable. Thus, the reform changed little. Under feudalism the farmer had little incentive to produce. Under socialism he has even less. Over 60 percent of Ethiopia is arable. But only 10 percent is cultivated. As one authority commented: "The low rate of land use may be attributed to lack of motivation to produce anything beyond subsistence levels."

It is hardly surprising that these policies produced shortages. Indeed, it would have been surprising if they had not.

The Market Solution

History shows two things quite clearly: 1) the application of Socialist measures to agriculture results in declining production, food shortages and sometimes even famine; and 2) the application of Capitalist measures to agriculture tends to produce agricultural abundance.

For example, prior to the 1917 Revolution, Russia was a major exporter of food. By 1920, however, the area under cultivation in the Soviet Union had declined by 50 percent and yields per acre fell by 40 to 50 percent. An estimated six million Russians died of starvation. Millions more died in the 1930s as a result of Stalin's collectivization program. Eventually single-acre private plots were grudgingly permitted. Small as they are, these plots are about *40 times* as efficient as the collective farms. There is certainly a degree of irony in the fact that despite its tremendous agricultural potential the Soviet Union is now the single largest purchaser of US grain exports.

India provides a very instructive contrast to the Soviet Union. After highly interventionist if not socialist policies resulted in famine in the early 1970s, India abandoned price controls on agriculture. By 1977 India not only was self-sufficient, it was exporting large quantities of grain. In addition, it had built up a grain reserve of 22 million tons, which enabled it to manage the severe drought of 1979 without the need for food imports.

The famine in Africa is certainly a tragedy. It is all the more tragic because it need not have happened. There is no need for it to happen again. Anyone with a serious desire to end recurrent famines would do well to take a look at what results from an ideological commitment to socialism. Let the free market operate, for wherever farmers have been exposed to market incentives, farm output has increased.

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Henry W. Vanderleest
Karoline Bota

Railroad Deregulation

On February 4, 1887, Congress passed the Act to Regulate Commerce. This legislation also created the Interstate Commerce Commission (ICC) whose job it was to administer and enforce provisions of the Act. The Act to Regulate Commerce, along with several subsequent amendments which sought to strengthen it, placed the railroad industry securely under the control of the federal government. While the original intent of the Act was to abolish the numerous abuses of public trust by the railroads, the long-term effect was the stagnation of the industry. For nearly 100 years, railroads had little or no flexibility in marketing their services to shippers.

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Because of government-imposed price, service, and revenue constraints, there generally was little incentive for railroads to increase productivity, to lower costs, or to be innovative in providing services to their customers. Regulation in the railroad industry generally stifled creativity in the marketing area and, for the most part, caused the majority of railroads to turn inward and become operations-oriented rather than marketing-oriented in their approach to doing business with the public. The operations-oriented railroad's approach to selling its services to shippers typically took the form of, "This is what I can do for you and this is how much it will cost. Take it or leave it."

On October 14, 1980, Congress enacted the Staggers Rail Act. This Act thrust railroads into a significantly less-regulated environment, one for

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which most were unprepared. The tables were turned and shippers could now tell railroads, "These are my needs, what's your best offer?" If the offer was not good enough, shippers were usually able to go to another railroad or switch to competing modes such as trucks or barges. After being shielded for many years from the "real" marketplace with its demand, supply and competitive considerations, railroads quickly recognized that they had to begin successfully marketing their services in order to survive.

This article examines the impact of deregulation in the railroad industry and how it has allowed railroads to develop and implement sound marketing programs in attempting to meet their organizational goals. Although the article is limited to the railroad industry, deregulation in many industries, including aviation, banking and communications appears to be the wave of the future. It is expected that marketing will become a key element in the business plans of many firms in each of these industries as they also strive to compete successfully in a deregulated environment.

Competitive Conditions Prior to 1980

Despite the constraining effects of regulation, railroads remained the dominant form of freight transportation in the U.S. until the emergence of the motor carrier industry in the 1930s. In the 1940s and '50s the number of trucks and their acceptance increased rapidly, providing shippers with a viable alternative for moving their merchandise. Railroads, however, made little attempt to meet the challenge motor carriers were providing. As the dominance of railroads continued to dwindle, the causes became increasingly evident.

First, the Act to Regulate Commerce gave railroads virtually no flexibility in rate-making. While the intent of early legislation was to abolish railroad rate discrimination, it made it difficult, if not impossible, for railroads to make rate adjustments which reflected economic as well as competitive conditions. As a result, railroads lost much of the high-value, high-rate traffic—such as manufactured goods, gasoline and produce—to the motor carrier industry. Most remaining rail traffic consisted of low-value, bulk commodities such as coal, grain and timber.

In general, the loss of high-value traffic to the trucking industry was due to service considerations. While it may have been cheaper to ship some goods by rail, the time saved by using motor carriage could be translated into dollars and cents, thus offsetting the higher cost. The speed and reliability of some railroads had also been lessened by deferred maintenance policies which

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were practiced by most railroads at the time.

Another factor hindering the competitiveness of railroads during nearly ninety years of regulation was the railroads' inability to abandon unprofitable lines when necessary. Because of the ICC's restrictions, railroads were often forced to provide unneeded and unprofitable service to some areas for extended periods of time. Railroads were also reluctant to become involved in the costly and time-consuming battles with shippers and local groups when abandonments were proposed.

The extensive amount of redundant track mileage, coupled with the costs of maintaining it, resulted in serious financial difficulties for many railroads. The railroads argued that the elimination of some main-line track would allow them a greater volume of traffic to travel over the remaining lines, thus reducing their operating costs. Permission to abandon was granted very infrequently, however. When abandonments were approved, it was generally only after drawn-out deliberations had been completed, some lasting as long as four or five years.

Because of the problems and inefficiencies resulting from restrictive government regulation, the railroad industry consistently earned a return on investment considered to be far below that necessary to attract new capital for plant and equipment improvements. As a result of inferior railroad service, shippers readily switched their business to motor carriers who, although usually charging higher rates, generally offered higher quality and more dependable service.

Key Elements of the Staggers Act

The Staggers Act of 1980 marked the end of nearly 100 years of restrictive government regulation of the railroad industry.[1] In short, it allows the marketplace to determine price, quality and type of transportation service offered by individual railroads, which gives them greater opportunity to compete successfully against each other as well as against competing modes. A brief overview of the major provisions of the Staggers Act which directly influence the ability of railroads to develop marketing programs, particularly in the areas of pricing and service, is discussed here.

General rate flexibility. Rate freedom is the most important result of railroad deregulation. Railroads can now make rate adjustments, subject to certain guidelines, without ICC approval. Currently, for example, nearly two-thirds of all rail rates are entirely free from regulation.[2] The balance are still under some ICC jurisdiction because they apply to specific commodities such as coal being moved between two points where

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railroads have virtual market dominance, thus leaving the shipper with no alternative carrier choices. In general, however, pricing is now a controllable variable in a railroad's business plan as price changes can be made in a timely manner in response to changing economic and competitive conditions.

With deregulation, the traditional practice of all railroads collectively seeking approval from the ICC for the same percentage rate adjustment has also been eliminated in favor of individual railroads setting their own rates. As a result, the role of the ICC has been lessened to routinely publishing and filing rates developed by carriers. Because of the large number of rates now available to shippers, some real bargains exist. Regardless of whether rates are increased or decreased, the Act stipulates that individual railroads may determine specific rates for each shipment, depending upon demand and competitive forces. That competitive rates are now very popular is evidenced by the fact that nearly 70 per cent of the freight revenue earned by railroads in 1984 is due to negotiated rates.[3]

Service contracts. The legalization of service contracts in which individual railroads tailor a specific rate and service package to the needs of a particular shipper also resulted from the Staggers Act. The new law encourages railroads to innovate and experiment in developing rate and service packages for individual shippers. Before the Staggers Act, railroads and shippers were hesitant to enter into contracts because they feared antitrust litigation. Although the ICC has no role in the development of contracts, it must approve the final agreement between the railroad and shipper. This rarely poses a problem, however, as most contracts are routinely approved.

The duration of contracts can run from several months to as long as ten years or more. Contracts can take virtually any form as shippers are able to negotiate for specific services needed as well as eliminate any unwanted services. Railroads usually benefit in this situation because they can set rates that more closely reflect their actual costs in handling the shipper's freight. Some long-term arrangements even specify that railroads make major investments in equipment and facilities. In general, contracts allow railroads to increase efficiency, particularly in the area of better car utilization and long-term revenue projection. Uncertainties in these two areas have contributed largely to the railroad industry's weak financial condition in the past.

Eased regulatory restraints have also encouraged railroads to offer intermodal transportation services to their customers. Prior to 1980, rail-

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roads were generally prohibited from offering service via other modes. This has changed so that railroads may provide shippers "total" transportation service using all modes. This situation is well illustrated by the CSX Corporation which has built a true intermodal transportation company around the traditional rail operation by offering a wide range of transportation services by all modes.[4] It is expected that the popularity of intermodal transportation services will continue to increase as this concept allows railroads to react to competition from other modes and increase revenues by moving traffic from origin to destination over longer distances.

Mergers and abandonments. The Staggers Act has sparked an increased interest in mergers. This is because one of the objectives of deregulation is to encourage railroads to become more self-contained. Because of their high fixed costs, railroads have always been most efficient on long hauls where stopping, starting and the number of interchange points are minimal. With additional mergers, railroads will be able to compete more effectively with other modes and increase revenues by handling the shipment from origin to destination on one system. Increased revenues combined with reduced costs incurred when moving traffic over longer distances should contribute to improved earnings for individual railroads as well as to the general health of the industry.

Abandonment of unprofitable lines was also facilitated with deregulation. Prior to 1980, it was extremely difficult for railroads to withdraw service from areas which do not provide profitable volumes of traffic. This resulted in cross subsidies where shippers on a railroad's more profitable lines were charged higher rates to cover losses elsewhere. The goal of deregulation is that railroads need only provide service where enough volume of business exists to provide a reasonable return for that service.

Although it is easier to discontinue nonprofitable lines, it is expected that most railroads will attempt to avoid abandonments as long as possible by stepping up their marketing efforts to promote use of the line in question. If and when a line is abandoned for lack of traffic, however, it remains to be seen if the marketplace will offer enough incentive for another carrier to move into the area and provide service. In a situation where an abandoned line remains unattractive to all railroads, the Act makes it easier for the line to be taken over by other parties such as state and local governments. Some states, for example, have enacted legislation that subsidizes a carrier for keeping a marginal route operating.

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Railroads "Discover" Marketing

Effective marketing is based upon determining the needs of a market and attempting to meet those needs more efficiently than competitors, with the ultimate goal of making a profit. Before 1980, most railroads were in a position where it was either not possible or not necessary to aggressively seek out business by offering competitive price and service packages.

Railroads are now aggressively attempting to find new freight. Increasing profit potential has encouraged numerous successful efforts such as "Sprint" and "Slingshot" express trains, "Fuel Foilers," "Tank Trains" and other rail service packages designed to meet the specific needs of rail customers.[5] Marketing-oriented railroads no longer depend exclusively on moving additional bulk cargo to increase business. Instead, they are putting much emphasis on seeking general merchandise freight, with the goal of recapturing some of the high-value traffic that they had previously lost to the motor carrier industry.

Railroads are also intensifying their sales and promotional efforts. In communicating with their customers about available services, for example, many railroads have adopted traditional consumer goods promotional techniques such as prime-time radio and television spots, billboard advertising and direct mail flyers. These methods complement promotional techniques generally used in industrial marketing such as trade shows and personal sales calls. Having satisfied customers should enable railroads to make extensive use of testimonials in future print and television advertising.

Much railroad promotion now includes direct, head-on comparative advertising of rail service compared to that offered by competing modes such as motor and water carriers. A recent Southern Pacific ad in a popular trade publication proclaims that:

> Truckers are grinding their teeth these days . . . for a good reason. We're successfully competing against the trucks now because we have the freedom to exercise our imagination . . . for example, we tailor train schedules to accommodate customers, we add trains, we expedite them, we write on-time delivery guarantees and we offer price incentives . . . our overall package gives us a competitive edge over truckers.[6]

Pricing and service freedoms allowed by the Staggers Act have given railroads the opportunity to learn what marketing is all about. Progressive railroads now recognize that marketing can aid them in reacting to changing market conditions and to competing transportation modes. Marketing-oriented railroads believe that marketing belongs at the top of the organizational

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chart and are reorganizing to reflect this belief. Many, such as the Illinois Central Gulf and Norfolk Southern are bringing in marketers from the "outside," meaning nonrailroaders, to head up newly organized marketing divisions.[7] In short, the Staggers Act has created a renewed sense of urgency to accept marketing principles, understand them and put them to use.

On Track to Profitability

Recent data show that railroads now account for nearly 40 per cent of total U.S. freight tonnage hauled in 1984, up from just over 37 per cent in 1980.[8] Although representing only a small increase during the four-year period, it is nonetheless significant because it reversed a downward trend in ton miles hauled that began in the 1940s when railroads, in addition to being saddled with regulatory restraints, were also being faced with new competition from the growing trucking industry. New business freedoms as a result of deregulation are also primarily responsible for the improvement in the rate of return on investment in the rail industry from about 2 per cent to about 5.5 per cent during this four-year period.[9]

In general, earnings and stock prices are up for individual railroads and there have been substantial increases in capital spending throughout the industry. Massive innovation and new construction programs undertaken by many railroads have eliminated considerable deferred maintenance from mainline track. It is also likely that new equipment purchases will provide railroads with a 20 per cent increase in equipment capacity in 1985.[10] It is expected that increased capital spending for improving track and roadbed conditions, modernizing switching yards, upgrading terminal facilities and purchasing additional rolling stock will allow many railroads to provide a higher level of service to their customers in the future. While railroads have traditionally been indifferent to service considerations, their new profitability is encouraging them to look at service as an important aspect of profitable operations.

Conclusions

After years of deferred maintenance, decreasing traffic and inadequate profitability, railroads are making a comeback. Easing of regulatory restraints through deregulation has given railroads the ability to meet changing market and competitive situations as well as the freedom to make business decisions independent of government sanction. In short, railroads have been given the opportunity to succeed or fail based on the strengths and weaknesses of their management decisions in a free marketplace.

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Railroads no longer have the luxury of operating in a protected environment where they had minimal interest in or incentive to optimize their operations.

Progressive railroads have responded to deregulation by gearing their organizational goals toward making rail service fit shipper needs rather than making shipper usage somehow fit rail service. As a result, each railroad provides its customers with different combinations of price and service, depending upon competitive conditions. Overall, the future of the rail industry is bright. A new spirit is evident which is reflected in new innovation, productivity and improved profitability. After four years of deregulation, evidence shows that the industry's health has improved and survival seems assured.

It is expected that the same results will be seen in other industries that have been recently deregulated. Deregulation requires that a firm become marketing-oriented as it is no longer shielded from the harsh realities of the free marketplace by government regulation. Marketing and deregulation go hand-in-hand. As evidenced in the railroad industry, without deregulation there is little need for marketing. In a deregulated environment, however, it is crucial that marketing become the key activity in a firm's business plan. Well-managed firms will thrive in a market-directed, deregulated environment, while those with a managerial focus who continue to bemoan the loss of the regulatory crutch will ultimately fail.

—FOOTNOTES—

[1]For a good summary of the Staggers Act see Ernest W. Williams, "A Critique of the Staggers Rail Act," *Transportation Journal* (Spring, 1982), pp. 5–15.

[2]*Yearbook of Railroad Facts*, 1984 edition (Washington, D.C.: Association of American Railroads, 1984), p. 15.

[3]*Yearbook of Railroad Facts*, 1984 edition, p. 31.

[4]"CSX: Railroading For Fun and Profit," *Business Week* (November 30, 1983), p. 100ff.

[5]"Staggers Rail Act and Its Impact on Shippers," *Dun's Business Month* (January, 1984), p. 100ff.

[6]See *Dun's Business Month* (October, 1984), pp. 84–85.

[7]"The Railroads Rise Again," *Fortune* (November 26, 1984), p. 29.

[8]*Yearbook of Railroad Facts*, 1984 edition, p. 6–7.

[9]Frank Malone, "Rate of Return Reaches 5.5% as Earnings Soar," *Railroad Age* (November 1984), p. 21.

[10]"Industry Groups Speak Out for Deregulation," *Dun's Business Month* (January, 1984), p. 97.

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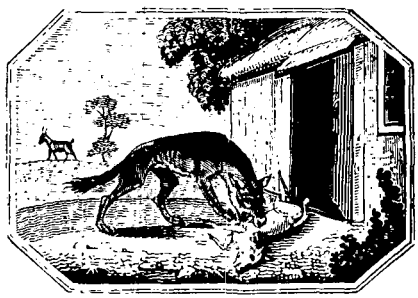
John K. Williams

Catch the Little Foxes!



A FRIEND of W. C. Fields once discovered the comedian diligently reading the Bible. Surprised by this uncharacteristic display of piety, the friend asked Fields what he was doing. "What do you think?" retorted Fields. "I'm looking for loopholes!"

That, I suppose, is one way of reading the Bible. There are countless other ways. One of these ways simply involves seeking out and delighting in the images used by the Biblical writers. One such image, quaint but charming, I would bring to your attention. "Catch us," requests the author of *The Song of Solomon*, "the foxes, the little foxes, that spoil the vineyards."[1]

Most defenders of freedom are aware of, and have thought about, the great and powerful forces which today conspire to spoil the vineyards of economic and political liberty. We do well, however, also to be alert to the "little foxes"—the sneaking, sly realities that nip away at and in time devastate the liberties our forefathers planted and we are called to tend. When we look, we discover that the number of these "little foxes" is alarmingly large.

The Little Fox of Snobbery

A strange phenomenon has recently become widespread in my country. It is fashionable to deplore and sneer at fast-food chains and so-

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called family restaurants. Liberals given to haunting those tribal rituals called "cocktail" or "sherry" parties become quite animated at these gatherings when the conversation turns to the actual or threatened arrival of a MacDonald's outlet or Denny's Restaurant in their fashionable suburb. Noisily, they lament the allegedly plastic smiles, plastic food, and plastic architecture of these establishments.

Some liberals have gone further, writing articles and penning little books bewailing the evils of fast-food and family restaurants. It would seem that these twentieth-century phenomena have become, for many liberals, the apotheosis of capitalism, the very epitome of the socio-economic system they deplore. Hence, while unable to take the liberal mentality as seriously as it takes itself, I invite you briefly to ponder this loathing of institutions which seem, at least on the surface, innocuous.

Strangely, the liberals have at one point got something right. Fast-food chains and family restaurants *do* capture something of the essence of the free market. In and through these enterprises the market is doing what it always has done: transforming luxuries once reserved for a privileged few into commonplace activities taken for granted by the many.

Writes Joseph Schumpeter: "It is the cheap cloth, the cheap rayon and cotton fabric, boots, motorcars and so on that are the typical achievement of capitalist production, and not as a rule improvements that would mean much to a rich man. Queen Elizabeth [the First] owned silk stockings. The capitalist achievement does not typically consist in providing more silk stockings for queens but in bringing them within the reach of factory girls in return for steadily decreasing amounts of effort."[2]

Not so long ago, dining out was considered—at least in my country—a luxury. The wealthiest frequently patronized restaurants. Moderately comfortable families dined out only on special occasions. Those yet to enjoy even "moderate comfort" dined out rarely if at all.

The Achievement of Capitalism

But the market worked its magic. Consider what capitalism has done. The pleasurable practice once enjoyed by a few became available to the many. Tastes once perceived as evidence of refinement—namely, choosing one's meal from a menu and being waited upon—were revealed as universal and thus "ordinary." Ordinary folk gained.

Yet some people lost—lost the pleasure derived from "feel[ing] and act[ing] smugly superior" by displaying "tastes and interests" distinguishing them from the masses. So deriving pleasure is, according to the dic-

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tionary, the defining characteristic of snobbery. That a snob, so the dictionary affirms, is "a vulgar or ostentatious person," perhaps merits mention!

Still, people desperate to seem "different" can entertain their whims. Accompanying the advent of fast-food chains and family restaurants has been the emergence of extraordinarily expensive dining-places boasting a "homey atmosphere" and "home-cooked food." People of self-styled "refinement" can thus pretend to be dining at home and, during their meal, contemplate the rare and special tastes distinguishing them from the masses. Indeed, affluent liberals today tend to regard taking their friends to restaurants as somewhat gauche. They thus flock to courses in gourmet cooking and, after a tiring day slaving over a hot stove, invite one another to home-cooked meals served by themselves. They thus remain "special." Remain "different." Remain "snobs." And nip away at the free market for robbing them of their snobbish privileges.

The Little Fox of Obsessive Democracy

First cousin to the little fox of snobbery is the little fox of obsessive democracy. The obsessively democratic little fox actually enjoys what the snobbish little fox would like to enjoy: tastes and attitudes quite distinct from those held by ordinary mortals. Yet in the case of the obsessively democratic little fox, "enjoy" is a misleading verb. He or she *dislikes* being different, and yearns to be simply "one of the boys" or "one of the girls."

Usually, the little fox of obsessive democracy is an academic. By virtue of their training, academics frequently *are* elitist in their tastes, in the literal meaning of that sadly abused word, "elitist." The academic savors the novels of Dostoevsky; the masses devour the works of Jackie Collins. The academic listens with delight to the music of Mozart; the masses spend vast sums upon recordings of the noises made by "Boy George." And the obsessively democratic academic is profoundly disturbed.

Grounds for being disturbed certainly do exist. While holding that economic value is purely subjective, signifying not some property of an object but a relationship between an appraising mind and an object appraised, I see no more reason to assume that aesthetic value is subjective than to assume a subjective theory of truth. If informed that a Jackie Collins novel or a "Boy George" song is really on a par with *The Brothers Karamazov* or *The Magic Flute*, I shall treat my informant with courtesy, but nothing more. The informant is sadly misguided and, while praying that a soul

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might be delivered from barbarism, I shall not meditate at length upon a grotesquely perverse point of view.

Typically, however, the obsessively democratic academic is not content merely to lament error. Nor does it suffice to instruct the ill-informed and thereby foster the cause of civilization. A glaring difference must be explained away. The obsessive democrats like to believe that their tastes and interests are really "natural" and would be shared by all were it not for some distorting process debasing the values of so-called "ordinary" people. And the free market provides the sought-for scapegoat! It even caters to a demonstrably democratic desire for villains to hiss! The masses, so obsessively democratic academics muse, would agree with them were it not for the demonic manipulation and destruction of "authentic feelings" engineered by profit-seeking entrepreneurs and advertisers working in and through the market.

George J. Stigler puts the matter well. "It is . . . a basic function of the intellectual to define the standards of good taste more clearly, and to persuade people to approach them more closely. It is proper to denounce vulgarity of taste, and to denounce it more strongly the more popular it is. . . . [Y]et I say that complaints of deficiencies in tastes are misplaced when they are directed to the market place. . . . The market place responds to the tastes of consumers with the goods and services that are saleable, whether the tastes are elevated or depraved. It is unfair to criticize the market place for fulfilling these desires, when clearly the defects lie in the popular tastes themselves. I consider it a cowardly concession to a false extension of democracy to make *sub rosa* attacks on public tastes by denouncing the people who serve them. It is like blaming the waiters in restaurants for obesity."[3]

Consumer Tastes and Values

The market place reveals, with uncanny and not undisturbing accuracy, popular tastes and values. Castigating the market for what it reveals is like denouncing wet roads for inclement weather. Yet the obsessive democrat, temperamentally, *must* sustain the illusion that he or she is really "one of the people." It is not merely egalitarianism; it is profound insecurity combined with egalitarianism. Perhaps an element of guilt is also present, an academic wondering whether a salary determined by the market place for a person specializing and delighting in early Elizabethan literature would be quite as generous as that granted by an essentially government-funded school or college. Be that as it may, the villain has been uncovered. The obsessive democrat's tastes *are* those of "the people," but of "the people"

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as they would be were it not for the destructive, alienation-producing market.

So what, as Lenin once asked, is to be done? The answer is clear. Tinker with the market. A tax on popular novels here; a subsidy for "worthwhile literature" there. Extract money from football fans and movie buffs to underwrite performances of opera and ballet. Challenge the rule of radio stations playing recordings by "Boy George" by "publicly funded" radio stations featuring Mozart. And, of course, launch vigorous attacks on the evils of advertising.

The little fox of obsessive democracy is, I suggested, first-cousin to the little fox of snobbery. The differences are obvious, but so is the family resemblance. Each sets about spoiling the vineyards of liberty to protect personal convictions challenged by the choices of countless individuals through the workings of the market. One wishes to feel "different," possessed of rare and refined tastes. The market, transforming luxuries into commonplace opportunities, reveals that the tastes in question are universal. The other wishes to be "one of the people," but the market, dutifully providing the people with what they value, reveals that the tastes of the masses and those of the obsessive democrat are radically different. In each case, the market shatters a cherished illusion. Not surprisingly, the market is thoroughly disliked!

The Little Fox of Moralism

The third little fox spoiling the vineyards belongs to a different family. The little fox of moralism is not the victim of illusion. Rather, he is merely confused. His values, while essentially sound, are impressionistic. His knowledge of the workings of the free market is almost zero. Yet, at least in theory, reason and argument might lead to his becoming a guardian rather than a destroyer of the vineyards.

The moralist values the cooperative and compassionate spirit. He is anxious to see justice realized and destitution abolished. He measures the market against these less than precise values, and declares the market wanting. The market is immoral. Or so the little fox of moralism believes. *Sincerely* believes. And with admirable intentions, he sets about spoiling the vineyards.

The sincerity and good intentions of moralists, religious and secular, who attack the free market in a free society, need not be questioned. However, a brief perusal of history suffices to establish the havoc and devastation wrought by the sincerest of people from the best of motives. G. K. Chesterton somewhere observes that were a lunatic wielding an axe to be pursuing one in the sincere belief that the world would be

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unspeakably enriched by one's demise, the lunatic's sincerity—and, indeed, good intentions—do not obligate one to assist him in his homicidal endeavors.

The moralist yearns to see destitution abolished. Astonishingly, that yearning leads him to oppose the free market. All the evidence available suggests that an allocation of scarce resources by political rather than by market forces perpetuates poverty. The Swedish economist, Sven Rydenfelt, recently published a volume in which he examines the performance of fifteen diverse nations embracing socialism. A single story emerges. "From disillusioned farmers to poor harvests, from food subsidies to foreign loans from massive debts to bankruptcy, the socialist state is doomed."[4] The hungry are not fed; the naked are not clothed; the homeless are not housed. The survival of the unhappy inhabitants of these nations rests upon the productivity and generosity of the very capitalist nations so many moralists deplore.

That this is so should not surprise. A small tribal society may well be able to cope with a centrally planned economy. Wants are few and are known. Skills also are few. Raw materials available to the tribe are basically known. Tribal elders, or the tribe as a whole, can collate information about these wants, skills, and available resources, and direct the tribe's productive activities by reference to this information.

This cannot be done in a large and complex society. People want innumerably different things. Countless skills are diffused through millions of people, and constantly change as new technologies are devised. Raw materials are distributed globally, and are characterized by constantly changing relative scarcities. No experts could conceivably collate, synthesize, and make economic decisions by reference to this totality of information. Yet in the absence of this information, resources inevitably will be misallocated, people failing to use what they have to acquire what they want.

The Market Process

But in a free market the requisite information *is* available. As Friedrich A. Hayek[5], building on the work of Ludwig von Mises, has so cogently argued, changing relative money prices in the market "encode" the relative data. Suppose, for instance, that the price of one sort of fish increases relative to the price of other sort of fish. Fish consumers use the more expensive fish sparingly, and start seeking for alternatives. Fish providers, anxious to secure a pleasing return for their labors, seek to increase the supply of the expensive fish or discover a pleasing alternative. Maybe an alert entrepreneur devises a means of farming the fa-

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vored fish. *Both consumers and producers know what they must do to adapt to the new social situation and to improve their personal lot, and have every incentive to behave in the appropriate way.*

Planning is still a reality, but it is planning by individuals who know precisely what their abilities and wants are rather than by alleged "experts" who cannot even begin to calculate what wants and abilities are there to be considered, coordinated, and satisfied. Cooperation is the essence of the exercise, but it is the uncoerced cooperation of individuals who, to improve their own situation, *must* take account of their fellow citizen's wants, and whose productive activities rest upon and presuppose the different productive activities of their fellows.

Indeed, it is a society coordinated by political commands that involves a morally suspect form of "competition" as against "market cooperation." Such a society inexorably declines into factions competing for the attention and favors of those exercising political power. Each faction seeks a larger share of available goods in the full knowledge that success in securing such a share means less for others. In a market economy, an economy coordinated by individuals seeking to improve their own situations, the only "competition" obtaining is the competition to discover new and better ways of satisfying the desires of others. Doubtlessly some individuals seek to curry favors from the politically powerful, but the extent to which success follows these attempts measures the distance towards socialism the community in question has traveled.

Simply, a desire to alleviate poverty, to foster cooperation, and to further consideration of the needs of others, favors not a socialist command economy, but the free market that moralists so angrily denounce.

The moralist perceives something "unjust" about disparities of income and wealth distribution effected by market forces. Yet what in this context can the words "just" and "unjust" signify? Absolute equality of income and wealth is usually conceded to be "unjust," in that it takes no account of different needs, different wants, and different efforts, and demands constant coerced redistributions to "correct" inequalities generated as people freely exchange what is theirs. What then is required?

The Rule of Law

The answer usually is disarmingly simple: a distribution taking account of all relevant personal factors. Yet what *are* these factors? And how is such a distribution to be achieved? Maybe in a family or even schoolroom, burdens and benefits *can* be distributed related to individual wants and moral deserts, but in

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both the family and schoolroom a parent or teacher *knows* each individual involved and can, with moderately successful accuracy, determine such wants and deserts. Yet the smallness of the group involved is the *sine qua non* of this state of affairs. In a complex society of literally millions, such knowledge is inaccessible and such a distribution therefore impossible.

Yet both the words "justice" and "injustice" can still operate. Think again of the family or classroom. The parent or teacher ignoring individual needs and deserts may well be regarded as "unfair" or "unjust," *but so is the parent or teacher who has a "favorite" or "pet."* In some circumstances "fairness" or "justice" may demand a consideration of the personal situation of individuals, but in other circumstances what is demanded is the impartial enforcement of rules applicable to all. The first use of the words "fairness" or "justice" cannot, as argued, be extended beyond the small and intimate group to "society as a whole," *but the second use can.* Indeed, *only* the second use can. In a large and complex society, "justice" demands rule by purely general principles of conduct, equally applicable to all. The "justice" of a particular distribution of income or wealth is determined *not* by some characteristic of the distribution itself, but by the behavior or procedures generating the distribution. The question to be asked is whether that behavior defied or complied with general rules of conduct equally applicable to all. If, for example, the behavior generating a particular distribution of income or wealth defied rules proscribing force, theft and fraud, the behavior is "unjust" and thus the distribution is unjust. Conversely, if the behavior was voluntary and in accordance with the rules—if the behavior, let us say, did *not* involve force, theft or fraud—the behavior and thus the distribution is "just."

Justice and Impartiality

Such a model of "justice," applicable to a large and complex society, should appeal to many moralists, particularly members of the Christian clergy. It reflects the impartiality of the One Who "maketh his sun to rise on the evil and on the good, and sendeth rain on the just and on the unjust" (*Matthew* 5:45). Admittedly, it falls short of the "justice" which will be meted out on the Last Day, when He who knows all things, including the innermost secrets of every human being's heart, judges each, but such justice *cannot* be emulated by finite creatures who do not and cannot know all things, yet who nonetheless must create social order. In one sense, "justice" understood as the rule of purely general principles of conduct equally applicable to all may be a "second best," but given a

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social group larger than the small and intimate unit of the family or family-like body, *it is the only form of "justice" available to finite, fallible beings.* Politicians may *speak* of a large modern nation as a "family"; some clergymen may *cling* to a social ideal based upon the small feudal village. The reality of a large and complex society is, however, ill-served by a model of "justice" appropriate only to such rhetoric and nostalgic yearnings.

In sum, the moralist objects to a market economy, but typically displays a morally culpable ignorance of the workings of such an economy *and* of the problem any attempt to devise a socio-economic system must solve: how, *in the absence of the perfect knowledge an omniscient being alone enjoys,* to allocate scarce resources and move beyond the arbitrary rule of the powerful.

Truly, the little fox of moralism is a mightily confused little fox. He remains confused even when decked out in a clerical collar or a bishop's gaiters. He may well be sincere, but the measure of that sincerity is his willingness to listen to a few home truths and modify his attitudes in the light of what he hears and concedes to be true.

Conclusion

Our list of "the little foxes that spoil the vineyards" could be extended. Sufficient, however, has been said to make our task clear. Our first task, as ever, is to toil in the vineyards our forefathers planted, that we may pass on to our children the inheritance that rightly is theirs.

Yet a second task also is ours. Depending upon our capacities and situation, let us become either amiable but alert guard dogs sniffing out the little foxes spoiling the vineyards, or scarlet-clad hunters riding after these foxes in dedicated pursuit. Either way, let us "catch the foxes, the little foxes, that spoil the vineyards."

—FOOTNOTES—

[1] *The Song of Solomon,* 2:15.

[2] J. Schumpeter, *Capitalism, Socialism and Democracy* (New York: Harper and Row, 1942), p. 67.

[3] G. J. Stigler, *The Intellectual and the Market Place and Other Essays* (Glencoe, Ill.: Free Press, 1963), p. 7.

[4] S. Rydenfelt, *A Pattern For Failure: Socialist Economies In Crisis* (New York: Harcourt Brace Jovanovich, 1984), dust-jacket summary.

[5] F. A. Hayek, "The Telecommunications System of the Market," *1980s Unemployment and the Unions* (London: Institute of Economic Affairs, 1980), pp. 25–37.

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Dennis L. Peterson

Philanthropy and Freedom

EVERY TIME the opportunity arises, I enjoy traveling to nearby Lancaster, Pennsylvania, where I can observe the Amish and their farms. I enjoy seeing their neatly ploughed fields, immaculate homes, horse-drawn carriages, and handmade crafts. More importantly, however, I admire their deep commitment to a mixture of self-reliance and community charity. It reminds me of what our nation once was and could again become.

It is not their primitive, agrarian society I advocate. I long for increased self-reliance and an individual concern for our fellow man as opposed to the now predominant dependence on government handouts.

Early in our nation's history, Americans—farmers, laborers, merchants, and manufacturers alike—understood that charity was the responsibility and privilege of individuals and religious organizations. They never dreamed of relegating this duty to any other institution, especially not to government.

After the Civil War, however, an almost imperceptible change began to occur in the attitude of individuals. As the power of the federal government overshadowed that of individual state and local governments, the central government began to assume duties once fulfilled solely by individuals and churches, including those duties involving charity.

Perhaps the greatest changes in attitude came during the New Deal. In an attempt to provide "quick fix" cures for the problems of the Depression, government usurped the role of individuals in charity and philanthropy. Government became the primary provider of jobs, homes, and other humanitarian aid. It did not take long for the American people to begin looking to Uncle Sam for the sustenance of life and industry in America.

Then came the "Great Society"

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under President Lyndon Johnson with its myriad welfare and public assistance programs. By this time, government assistance had come to be viewed as practically an inalienable right of every needy American.

This attitude has since become entrenched in American life. Whenever workers lose their jobs, families lose their homes, or farmers lose their mortgages, there is an immediate cry for Federal assistance. Any hint of freezing the budgets of such programs at existing levels brings an outcry of anguish from social do-gooders across the nation.

Despite such vociferous defense of government assistance, there are several logical reasons for returning charity and welfare to the private sector. Government, some people are beginning to admit, simply cannot afford to continue financing the ever-increasing demands for its assistance. Private charity is more efficient and more effective than the government dole because it can apply the help where it is needed most—on a local, individual level—and keep administrative costs down. It is easier through private charity to encourage individual pride and to stimulate efforts toward self-help and self-improvement, whereas government assistance encourages laziness and idleness. Private charity is also more personal than bureaucratic welfarism.

The most compelling reason to return charity to private hands, however, is because that is exactly where it belongs. Charity is not the responsibility of government. Government's only legitimate role is defender and peace-keeper, not feeder, clothier, and general provider for the people.

The General Welfare

When confronted by this proposition, proponents of government assistance and welfarism generally assert two reasons for legitimizing government usurpation of this duty: the mandate of the general welfare clause in the U.S. Constitution and the argument that private enterprise capitalists exploit rather than care for the needy.

The preamble of the Constitution states that the federal form of government was instituted to, among other things, "promote the general welfare." This phrase, statists contend, gives government a *carte blanche* to care for the people of the nation. Carried to the extreme, the logic of this argument encompasses the provision by government of cradle-to-grave social welfare for every individual in the country.

Contrary to this erroneous interpretation, however, the "general welfare clause" means only that government is empowered to promote, through its peace-keeping authority and power, an atmosphere in which all citizens are free both to ef-

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fect their own well-being and to help provide voluntarily for the well-being of other less fortunate individuals around them. The Founding Fathers would be appalled to know that any other interpretation was made of this clause.

The idea that capitalists inhumanely exploit the needy, thereby necessitating government interference and assistance, has long been espoused by socialists and Marxists. They enjoy portraying free-market entrepreneurs as obese, callous magnates who violently oppress and exploit the unfortunate laboring masses. They claim capitalism helps only the rich at the expense of the poor.

Lenin argued, "Capitalists are no more capable of self-sacrifice than a man is capable of lifting himself by his own bootstraps."

Jawaharlal Nehru complained, "The forces of a capitalist society, if left unchecked, tend to make the rich richer and the poor poorer."

Even Roman Catholic bishops recently condemned the American free enterprise system. They apparently prefer a government-enforced redistribution of wealth, perceiving capitalists as unfeeling and greedy but a socialistic, paternalistic government as the savior of the downtrodden poor.

While many supporters of the free enterprise way of life would automatically reject Marxist premises as false, one important point does warrant our attention: There is always and in every instance the *potential* for such a premise becoming a reality.

Thomas Jefferson recognized the danger when he warned, "Material abundance without character is the surest way to destruction."

Grover Cleveland, aware of the threat of communist ideas to capitalism, was not blind to the dangers within the free enterprise system itself. "Communism is a hateful thing and a menace to peace and organized government," he declared, "but the communism of combined wealth and capital, the outgrowth of overweening cupidity and selfishness, which insidiously undermines the justice and integrity of free institutions, is not less dangerous than the communism of oppressed poverty and toil, which, exasperated by injustice and discontent, attacks with wild disorder the citadel of rule."

Obsessed by Materialism

There is within every individual a natural tendency to develop an attitude of selfish materialism which leads to the complete disregard for those who, perhaps through no fault of their own, happen to be less fortunate than the average citizen. In the past, genuine concern and compassion has prompted those with the financial means to develop a variety of programs that help meet the needs

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of such people. Private and religious philanthropy and benevolence saw to it that those in need were cared for.

In many instances, however, there has developed among the citizens of the free world such an obsession with personal and material advancement as to seemingly obscure the efforts of private philanthropy. Some individuals have become so wrapped up in obtaining more and more for themselves that they have thought less and less of the needs of others. Their conscience has been seared by the attitudes of "looking out for number one" and "get to the top of the ladder as quickly as you can regardless of those on whom you must step in the process."

In direct proportion to the unwillingness of private individuals to contribute philanthropically, the government has eagerly stepped in to fill the void. With these government funds, however, has come the inevitable hand of government control. And, contrary to what some would have us believe, government welfare has not been the gleaming success Lyndon Johnson's "Great Society" predicted. If anything, it has only encouraged and compounded the problems.

While self-interest has always been at the heart of capitalism, it has also been accompanied by a feeling of human charity and a sense of social responsibility toward one's fellow man. This is shown by countless instances of private philanthropy. Andrew Carnegie gave an estimated $350 million to charities. Marshall Field provided $8 million for a museum and donated land for the campus of the University of Chicago. "There is no happiness in mere dollars," he warned. "It is only in the wider public affairs, where money is a moving force toward the general welfare, that the possessor of it can possibly find pleasure, and that only in constantly doing more."

Private Charity

But most charitable funds come from the average citizen, the ones who share in the wealth produced by the wealthy minority. The magnitude of this giving was brought to light recently in Philadelphia. In an attempt to evict members of MOVE, a radical antisocial commune, police accidentally destroyed the homes of 61 families. Individuals, corporations, and community organizations immediately began raising funds for the innocent victims of the tragedy. A radio station solicited $30,000 from its listeners in less than a week. A large corporation donated $56,000 for emergency relief and challenged other businesses to match it. All of this took place—even before government officials had pieced together what had happened—because people were genuinely concerned about the welfare of their fellow men. As a re-

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sult, some people are beginning to remember that Philadelphia is the "city of brotherly love."

Yet there is still a clear danger that capitalism, if left unchecked—not by government interference but by the superior moral standards of individuals—will degenerate into a state similar to that predicted by the Marxists.

This danger, however, is not—as Marxists would have us believe—inevitable. With the rebuilding of sound national moral foundations and the strengthening of individual character, capitalism can continue to disprove socialist propaganda by meeting the needs and fulfilling the dreams of every citizen willing to put forth efforts at self-improvement and responsible social consciousness. History has repeatedly proven that not only the greatest material prosperity but also the greatest philanthropy has resulted from commitment to the freedom philosophy.

Such high character and morality cannot be dictated by an omnipotent government; it must arise voluntarily from within the individual heart and conscience. It must develop as the result of an awareness of the truth and practicality of the Golden Rule: "Therefore all things whatsoever ye would that men should do to you, do ye even so to them" (Matthew 7:12). It must be the outgrowth of realizing the need for an individual to love his neighbor as himself.

Samuel Smiles, who wrote widely on the practical aspects of personal and entrepreneurial success, concluded, ". . . society mainly consists of two classes—the savers and the wasters, the provident and the improvident, the thrifty and the thriftless, the haves and the have-nots." And so it will ever be, even in the best of free markets. But in a state-planned economy the number of wasters, improvident, thriftless, and have-nots is far greater than in a free economy.

The capitalist so quickly condemned by so many is, in Smiles' words, "merely a man who does not spend all that is earned by work." He then employs the money or time or resources saved in the acquisition of even more wealth in order to rise above a mere existence. He uses it to raise his family's standard of living. And what he believes he can afford to give to others for the fulfillment of their needs or desires, he contributes as he sees fit.

Philanthropy Begins at Home

To some, this may on the surface seem very selfish and self-centered, but it has proven to be without question the most effective system of encouraging philanthropy known to human history. Leonard Read wrote that "if material wealth has any moral purpose at all, it is to free men from the restrictions which are imposed by a subsistence level of liv-

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ing. . . ." Not only does the successful capitalist improve his own lot but also that of his fellow men through the goods or services he provides. In addition, his success permits him to contribute through charity to the improvement of others without hindering his own standard of living.

Those who decry this system of free philanthropy fail to offer in its place any more adequate or more effective alternative system. While capitalism admittedly has its problems, in stark comparison to any form of totalitarianism—whether benevolent or malevolent—these difficulties are negligible. "The inherent vice of capitalism is the unequal sharing of blessings," Winston Churchill stated, "but the inherent vice of socialism is the equal sharing of misery."

Individual Moral Improvement

The solutions to the needs of our fellow men lie not in regulation, intervention, or government-coerced programs, but in the moral improvement of the individual. Along with this will come to the individual realization that one must be not only honest but also generous. This will sometimes require self-sacrifice on our part. Such sacrifice will, however, be strictly voluntary.

The most important form of generosity is the giving of one's self. Success experts Napoleon Hill and W. Clement Stone advised, "Share yourself without expecting a reward, payment, or commendation. And above all else—keep your good turn a secret." Do so consistently and that secret will not remain one for long. Consumers notice and reward such generosity and good will.

Modern-day capitalists can help dispel the socialistic accusations of selfishness by realizing and acting upon the truth that if one wants to get more he has to give more. As someone once wrote:

> If you want to be rich, give;
> If you want to be poor, grasp;
> If you want abundance, scatter;
> If you want to be needy, hoard!

The story has been told of a man who opened a butcher shop in a small town which already had several such businesses. Despite the fact that his prices were higher than any of his competitors', his shop became the most frequented shop in town. When questioned about how he did it, the wise man replied, "I give them a smile and twenty ounces to the pound."

The key to success, not only in business but also in life itself, is to give something to others. Some of us can give money, others offer goods, and still others provide services. But we can *all* give something. We should count that day lost in which we have not tried to give a little of ourself to or for someone else. This is the essence of true charity. It is an integral part of true free enterprise.

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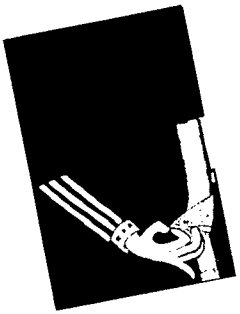

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The Essence of Hayek

To represent the full scope of Friedrich Hayek in a single book, even with an allotted 550 pages at the editors' disposal, was surely a formidable undertaking. The object, as nurtured by W. Glenn Campbell, the director of the Hoover Institution of Stanford University, was to greet Hayek on the occasion of his 85th birthday with a present to be called *The Essence of Hayek* (Hoover Institution Press, $27.50). The editors, Chiaki Nishiyama and Kurt R. Leube, both of whom are former students of Hayek, had to winnow through essays, occasional papers, books, speeches and polemical exercises that are numbered literally in the hundreds.

Hayek has spent a long working lifetime in pushing his investigations into many fields outside of formal economics. He has been an epistemologist, a student of law, a theorist of government, a student of science, an historian and, finally, a psychologist.

In giving us relevant samples of all the many Hayeks, Nishiyama and Leube have exercised excellent judgment. The book jacket copy, obviously written by someone who knows what Hayek is all about, speaks of the "two fundamental ideas—the limitation of knowledge and the spontaneous formation of systems"—that unify Hayek's work.

Individuals, as Hayek says, can't know everything, but the market can be trusted to coordinate a thousand subjective valuations in a price. Thus "spontaneity" is regulated without the coercion that people, as individuals, can never stomach for very long.

As Campbell points out, one of Hayek's earliest interests was psychology. Indeed, Hayek once debated

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the idea of becoming a professional in that field. Since Austrian economics, as developed by Carl Menger, Eugen Böhm-Bawerk and Ludwig von Mises, eschews "macroeconomic" preoccupation with statistical aggregates and concentrates on the subjective nature of individual choice, Hayek managed to find plenty of room for the contemplation of human vagaries even within the so-called dismal science.

The Human Nature

It was knowledge of human nature that made Hayek's *The Road to Serfdom*, written in wartime England, the great book that it was and is. John Maynard Keynes, Hayek's friendly enemy in the cloisters of Cambridge, had assumed that individuals could be handled in the mass by a dedicated bureaucracy once a group consensus could be established. In wartime, with an enemy at the gates, this can be done. But what is possible in a war crisis is not possible in times of peace. Human nature will out. Individuals have thousands of varying desires of their own, and they make their separate plans accordingly. If a master planner presumes to thwart them, resentments will multiply to the breaking point. The central planners, to carry out their assumed mission will feel constrained to bring in the strong-arm boys to knock recalcitrants into line. So the "worst" must eventually get on top. A planned society is not possible without a bureaucracy of thugs. Orwell had not yet written *1984* when Hayek presented his analysis of statist controls to Keynes, who, in praising *The Road to Serfdom* as a "grand" book, uttered a feeble protest that people ought to respect the judgment of a disinterested elite.

To Hayek, words have consequences. Most idea people—the "scribblers" who, in Keynes's theory, have usually to wait a generation to see their doctrines picked up—are not normally action-oriented. But Hayek, in addition to being a scribbler, has also been a great "doer." Where would England's Margaret Thatcher be today if Antony Fisher, a British RAF pilot who made some money as a chicken farmer by outguessing the controllers, hadn't gone to Hayek to seek advice about a possible career in politics? John B. Wood, in a book called *The Emerging Consensus* put out by the Institute of Economic Affairs in London, gives us an anecdotal recital of how Fisher's visit to Hayek in 1945 resulted in the "spontaneous formation of systems."

Hayek told Fisher to play politics at one remove, urging him to use his money and influence to change the climate of opinion in an England that needed a whole new line of thought. Taking Hayek with high seriousness, Fisher decided to set up

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a research organization in London. He found his director in the energetic Ralph Harris, who doubled as secretary and, later, as president of the Mont Pelerin Society, which had also come into being to advance the freedom philosophy because of the word spread by Hayek. The pamphlets, books and research material put out by Ralph Harris's Institute of Economic Affairs played a great part in the education of Margaret Thatcher, who acknowledged it by making Harris a member of the House of Lords.

Changing Opinion

John Wood says the Fisher-Harris IEA is a "good illustration of the social philosophy with which it is now identified, namely, that most creative developments in society result from harnessing the spontaneous forces generated by individuals." The words could be adapted to describe Leonard Read's FEE in America. Tony Fisher has more recently been exercising his spontaneity by starting new research institutions in cities around the world. One of them, the Fraser Institute of Vancouver, has been credited with killing rent controls in Canada and helping to send a conservative majority to the capital in Ottawa.

As a "doer," Hayek was responsible for a notable Mont Pelerin meeting that was devoted to exploding the myth that the industrial revolution in Britain has impoverished two or three generations of British workers. Hayek's contributory essay, "History and Politics," reprinted in *The Essence of Hayek*, is a most effective refutation of the notion, spread by Marx and Engels, that a steady proliferation of the tools available to workers can only result in their degradation as the capitalists seize the product. The industrial revolution enabled many more people to come to birth in England, and to achieve steadily improving standards of living.

Hayek, in another notable essay reprinted here, insists that he is an "Old Whig," not a conservative. One of the traits of the conservative attitude, he says, "is a fear of change, a timid distrust of the new as such." If Hayek is speaking of some of the Tories who make things difficult for Margaret Thatcher, he is, of course, correct. But the term "Whig" would never be understood in America, where the Whigs in nineteenth century history were the supporters of government largesse.

Hayek is fearful of the political future as long as "the ordinary representative cannot say 'no' to any large number of his constituents, however unjust their demands, and still hope to retain his seat." Hayek wrote these words in 1976. They still hold in 1985. But Reagan has read Hayek, and that, conceivably, could make a difference. We shall see.

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MARXISM: PHILOSOPHY AND ECONOMICS
by Thomas Sowell
(William Morrow and Company, Inc., 105 Madison Ave., New York, NY 10016), 1985
281 pages ■ $15.95 cloth

Reviewed by Kenneth L. Marcus

THOSE who would defend freedom against its opposites must avoid the pat generalizations and hackneyed misconceptions that have colored both apologies for and attacks upon the work of Karl Marx and Friedrich Engels. In his slim, tightly woven but thorough exposition, Thomas Sowell cuts through the labyrinthine rhetoric of Marx and Engels to provide a scholarly but concise and accessible interpretation of Marxian theory.

Reserving criticism for his final chapter, Dr. Sowell simply and systematically presents the philosophy, economics, historical theory and political strategy of Marxism. He emphasizes that Marx must be understood in terms of his dialectics, thus avoiding the pitfalls of earlier analysts.

Dialectics refers to the process by which things change and develop. "What Marxian theory derived from Hegel," Sowell tells us, "was that the way to understand the world was not to see it as a collection of *things* but as an evolving *process*. An acorn or a caterpillar could not be understood as a fixed and isolated thing, without seeing that it was a transitory stage of an ongoing process that would eventually turn one into an oak tree and the other into a butterfly."

Marx was essentially interested in human development and wanted to establish the social environment where human beings might best realize their potential. Under the "exploitative" conditions of capitalism and the division of labor, Marx claimed, people can develop themselves only partially. Standing all day in a factory and working in front of a machine does not encourage a person to develop and express his or her personal creativity.

Marx's theory of history tries to explain the transformations of whole societies. Changing technologies bring changes in economic relationships and ultimately in political structures and ideologies. Society is not completely determined by its modes of production, but economic development provides the tendencies which society will follow.

Capitalism is viewed as a necessary stage in socio-economic development, but one which will eventually be "negated" or replaced. It offered wider potentialities for mankind than earlier systems and provided a rapid increase in production, but it leads to continual, periodic

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crises which will ultimately hasten its development into a higher form of society.

The form the revolutionary movement would take was seen by Marx and Engels as crucial to the development of the post-revolutionary society. A democratic regime would be possible only if the bourgeois rule were overthrown by a mass movement of workers, but a small conspiracy of professional revolutionaries would imply dictatorial rule after the revolution.

Dr. Sowell sees the modern practice of communism as being, in a sense, a betrayal of Marx's thought, but not one which should have been wholly unpredictable. For one thing, Marxism is, in Sowell's words, "a mighty instrument for the acquisition and maintenance of political power." And it is not entirely clear whether Marx himself would not have committed the atrocities of a Joseph Stalin or a Pol Pot.

Nevertheless, Dr. Sowell, who himself now holds a distinctly free-market outlook, remembers the attraction which Marxist doctrine once held for him and continues to hold for countless students and intellectuals. He tells us, "What Marx accomplished was to produce such a comprehensive, dramatic, and fascinating vision that it could withstand innumerable empirical contradictions, logical refutations and moral revulsions at its effects."

Dr. Sowell, too, is dramatic and comprehensive, and his book is clearly written and devoid of jargon. It is ideally suited as an introduction to Marxism, but it delves deeply enough to recommend itself to more learned scholars. The last chapter spells out the tragic flaws in Marx's reasoning and is especially worth reading. Dr. Sowell has provided a valuable work which will enable us to base our acceptance of free enterprise and our rejection of communism on careful study and deliberation.

THE ESSENTIAL ROYSTER: A VERMONT ROYSTER READER
selected by Edmund Fuller
(Algonquin Books of Chapel Hill, P.O. Box 2225, Chapel Hill, NC 27515), 1985
345 pages ■ $18.95

Reviewed by Robert M. Thornton

REVIEWING this collection of essays and lectures is difficult because Royster—former editor of *The Wall Street Journal*—writes wisely and eloquently on so many subjects—George Washington and Martin Luther, our duty to posterity and respect for the Constitution, foreign policy and the military, inflation and the State, politics and politicians (from FDR to RR), public morality and education, modern technology and the Promethean Gift, criminal

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trials and the use of words. His "purely personal" columns on marriage, grandchildren and the celebration of anniversaries are a delight—touching but not cloying, filled with sentiment but not sentimental.

Let me dwell briefly on what Royster says about journalism, his own field of endeavor for fifty years and an increasingly controversial subject during the past decade or two.

Our Founding Fathers believed in the revolutionary idea of freedom of the press. They would be surprised, however, and perhaps disturbed by "what has evolved in the succeeding two centuries from their views of what constitutes freedom of the press." Certainly "they did not envision a press of very nearly unrestrained license."

Royster quotes Blackstone: "The liberty of the press is indeed essential to the nature of a free state; but this consists in laying no *previous* restraint upon publications, and not in freedom from censure for criminal matter when published. Every free man has an undoubted right to lay what sentiments he pleases before the public: to forbid this is to destroy the freedom of the press; but if he publishes what is improper, mischievous or illegal, he must take the consequences of his own temerity."

There, declares Royster, "is the whole of the law and the philosophy of the press as it appeared to Englishmen of the eighteenth century, including our own revolutionists."

Royster believes the American press occupies a unique position today and by the word press he refers not just to "the newspapers of mass circulation but to the whole of the press in all its multiplicity and diversity." This "American press," he writes, "can publish what it will. It can seize upon secrets stolen from government archives and broadcast them to the world. It can strip the privacy of councils and grand juries, it can pillory those accused of crimes before they are tried. It can heap calumnies not only upon elected governors but upon all whom chance has made an object of public attention. It can publish the lascivious and the sadistic. It can advance any opinion on any subject, including the opinion that all our government is corrupt and that the whole of the social order proclaimed in 1776 should be swept away and another put in its place."

Royster believes that "freedom of the press is not some immutable right handed down to Moses on Mt. Sinai. It is a political right granted by the people, in a political document, and what the people grant they can, if they choose, take away." Because he cherishes the precious right of free speech, Royster warns his fellow journalists not to abuse it because "there is no liberty that cannot be abused and none that cannot be lost."

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